REPORT

OF THE

POSTS AND TELEGRAPHS ACCOUNTS ENQUIRY COMMITTEE, 1931

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CHAPTER I

Introductory

1 The Posts and Telegraphs Accounts Enquiry Committee was constituted under the orders and with the terms of reference contained in Resolution No 1012-E.A dated the 11th February 1931 of the Government of India in the Department of Industries and Labour which is reproduced below —

> The accounts of the Indian Posts and Telegraphs Department were reorganised with effect from the 1st April 1925 in accordance with the principles followed in commercial accountancy so as to show *inter alia* the extent to which the Department as a whole imposed a burden on the general tax payer or brought in additional revenue to the Central Government whose declared policy is that the operations of the Department should be so regulated as to avoid in the long run either of those results The new form of the accounts attracted a considerable amount of attention and criticism more specially in the course of the last year due to the large deficit shown in the accounts of the Department for the year 1928 29
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> 2 Before the changes in the system of accounts could be introduced it was necessary to take certain decisions on matters of fundamental importance such as for instance the method of determining the annual contribution to the depreciation fund the liability of the Department for interest pensionary charges etc It was recognised at the time that some of these decisions arrived at as they were in the absence of reliable or complete data were of a tentative character and it was always intended that such decisions as well as other matters connected with these accounts should be revised as soon as sufficient experience thereof was acquired
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> 3 In their report on the accounts of the Central Government for the year 1927 28 the Committee on Public Accounts recommended the constitution of a small committee to consider how far the system of accounting at present in force in the Indian Posts and Telegraphs Department really provides a true picture of the commercial working of the Department and as the chief part of the enquiry to investigate the actual results of the existing provision for depreciation and to consider in particular its adequacy having regard to replacements which are likely to be necessary and to the foundation on which the Capital account as it stands at present is built up During the consideration of the report of the Public Accounts Committee by the Legislative Assembly at their session held on the 7th July 1930 an assurance was given to the House on behalf of Government that necessary action would be taken without undue delay for the formation of the committee recommended by the Public Accounts Committee

4. In fulfilment of that assurance the Governor General in Council is now pleased to constitute the Posts and Telegraphs Accounts Enquiry Committee with the following personnel :—

Sir Cowasjee Jehangir (Junior), K.C.I.E., O.B.E., M.L.A., *Chairman.*

Mr. G. Kaula, C.I.E., I.A. & A.S., Officiating Controller of Civil Accounts. } *Members.*

Mr. F. J. Pearson, I.S.O., formerly Deputy Comptroller and Accountant General, General Post Office, London. } *Members.*

Mr. S. P. Varma, M.Sc., Deputy Financial Adviser, Posts and Telegraphs. *Secretary.*

5. The Committee will examine the existing system of accounting in the Indian Posts and Telegraphs Department with a view to seeing how far it achieves its object of presenting a true picture of the commercial results of the Department's working, and will submit recommendations on the subject. One of the most important matter that will call for investigation in this connection is the provision made for depreciation but the Committee's enquiry will, of necessity, embrace a number of other matters, chief amongst which may be mentioned the assessment of the Department in respect of pensionary liability and interest charges, the allocation of the sale proceeds of unified stamps, and the credits allowed on account of services rendered to other Departments, etc.''

2. Mr. F. J. Pearson arrived in Bombay on 23rd January 1931 and assumed charge of his duties on the 24th January 1931.

Mr. G. Kaula joined Mr. Pearson on the 9th February 1931 at New Delhi.

Sir Cowasjee Jehangir arrived at New Delhi on the 15th February 1931, and the formal sittings of the Committee commenced the next day.

3. At the outset of our deliberations we transmitted to the Press, a small communiqué, on the 21st February 1931 intimating that the Committee's investigations would, of necessity, embrace, a number of matters other than the rates for depreciation, and that chief amongst these would be the pensionary liability of the Department, interest charges, allocation of the sale proceeds of unified stamps, credits taken on account of services rendered to other Departments of Government, etc. The communiqué contained a request for such written evidence as may be tendered by the 10th March 1931 by Associations interested in the accounting system of the Indian Posts and Telegraphs Department.

We also addressed a circular letter on the same lines to the various Chambers of Commerce, and other commercial bodies, and to certain Honourable Members of the Council of State and the Legislative Assembly who had, in the past evinced special interest in the accounts of the Indian Posts and Telegraphs Department

4 We held forty seven meetings, and recorded the evidence of a number of witnesses official and non official

5 The following is a list of the witnesses examined —

1 Mr H A. Sams, C I E, I C S,
Director General of Posts and Telegraphs

2 Mr F W Leake,
General Manager for India,
Messrs The British Insulated Cable Company, Ltd,
Calcutta.

3 Mr W H Thompson,
General Manager,
Bengal Telephone Corporation, Ltd,
Calcutta

4 Sir Hugh Cocke, Kt, M L.A,
Messrs Fergusson and Co, Bombay

5 Mr A C Banerjee,
Chief Engineer, Posts and Telegraphs

6 Mr M L Pasricha, C I E,
Deputy Director General, Telegraphs

7 Mr J Fairley,
Director, Telegraph Engineering Northern Circle

8 Mr R S Purssell, O B E,
Deputy Chief Engineer, Telegraphs

9 Mr G A. Hopkins,
Postmaster General Bihar and Orissa Circle

10 Mr J N Mukerji, O B E,
Electrical Engineer in Chief

11 Mr F C Alfrey,
Divisional Engineer, Telegraphs

12 Mr N Mukerji M A B L, A I.A,
Actuary to the Government of India

13 Mr M R Coburn, O B E,
Financial Adviser, Posts and Telegraphs

14. Lt.-Col. K. A. Appleby, O.B.E.,
Postmaster General,
Punjab and North-Western Frontier Circle.

15. Mr. P. J. Edmunds, M.A., B.Sc.,
Director of Wireless.

16. Mr. L. S. Vaidyanathan, M.A., F.I.A.,
Assistant Actuary,
Oriental Government Security Life Assurance Co., Ltd.,
Bombay.

17. Mr. K. D. Tembe,
Deputy Director General, Postal Services.

18. Mr. J. S. Pitkeathly, C.M.G., C.I.E., C.V.O., C.B.E., D.S.O.,
Chief Controller of Stores,
Indian Stores Department.

19. Mr. A. C. Badenoch, M.A., I.C.S.,
Officiating Controller of Civil Accounts,
formerly Accountant General,
Posts and Telegraphs.

20. Mr. Jagat Prasad, M.A., B.Sc.,
Accountant General, Posts and Telegraphs.

21. Mr. P. N. Mitra,
Controller of Telegraph Stores, Calcutta.

22. Mr. D. Colin Campbell, C.A.,
Director of Commercial Audit.

23. Rai Bahadur P. N. Mukerji, M.A., M.R.A.S., F.E.Met.Soc. (London),
Deputy Director General, Staff.

6. We were supplied by the Financial Adviser, Posts and Telegraphs, with a comprehensive memorandum dealing with the subject of our enquiry. This was supplemented, when necessary, by information on specific matters supplied in compliance with enquiries addressed to the various Departments of the Government of India.

CHAPTER II

Accounts prior to Commercialisation

7 By our terms of reference, reproduced in *extenso* in the previous chapter, we are required to "examine the existing system of accounting in the Indian Posts and Telegraphs Department with a view to seeing how far it achieves its object of presenting a true picture of the commercial results of the Department's working" The form of the accounts of any undertaking depends on the character of its operations on the conditions in which its work is done and finally on the general policy governing its activities In order, therefore, to fulfil the obligations laid upon us, we attempt to describe briefly the various characteristics of the Indian Posts and Telegraphs Department which are reflected in its accounts

8 Under the Indian Post Office Act and the Indian Telegraph Act the Governor General in Council has the exclusive privilege of conveying letters by post, and of establishing, maintaining and working telegraphs within British India, and the Indian Posts and Telegraphs Department of the Government of India is entrusted with the exercise of this exclusive privilege of Government Actually, the Department provides facilities for communicatio [illegible]
of Indian States
agreements and
mental organisat
that together make up the international communications of the world

9 From the very n [illegible] has to be
highly centralised so as t[illegible] yet room
has to be found for the g[illegible] operation
in different areas due in turn to the varying stages of economic and cultural development reached by various parts of the Indian Empire On the one hand therefore, the Department has to keep abreast with the most modern developments of highly technical sciences and on the other, it has to be content in some rural areas with providing a weekly service through a postman on foot

10 Again by the nature of its organisation, the Department is directly represented in the most distant and out of the way localities and so provides an agency for the discharge of various miscellaneous obligations of other Departments of the State which could be discharged directly by the latter only at prohibitive expense For instance at one end of the scale the Department is found selling packets of quinine and issuing licenses for the sale of salt, and at the other, it is entrusted with the management of a large Savings Bank system which is rapidly growing in the extent and volume of its operations

11 The accounting system depends on the policy governing the operations of the Department, and it is therefore of some advantage to our enquiry to trace the development of the policy of Government for the working of the Indian Posts and Telegraphs Department Prior to 1914, the Post Office and the Indian Telegraph Department were two independent Departments each working under a separate Director General The foundations of the present organisation of the Post Office were laid by the Post Office Act (Act XVII) of 1854, according to the provisions which,

the Postal Department in the whole of India was placed under the control of a Director General assisted by Postmasters General in the larger provinces, and Deputy Postmasters General, at first designated Chief Inspectors, in the less important provinces and the principal political agencies. Similarly, the beginnings of the Indian Telegraph Department can be traced back to 1851 or 1852.

12. The earliest declaration of policy, governing the operations of the Indian Telegraph Department, that we have come across is that contained in Resolution No. 2414, dated the 8th March 1867, published in the Supplement to the Gazette of India, dated April 6th, 1867, relevant extracts from which are given below :—

> "*Resolution.*—In the 13th and five following paragraphs of his memorandum, Colonel Glover has fully shown that the greater number of the Indian lines have been undertaken for political and administrative purposes. Many lines which are of great value in this view would never have been constructed, and could *never be maintained* were the *directly* remunerative character of the Government Telegraph its only object.
>
> 2. Even such lines, however, are often not wholly unremunerative in an economical point of view, in so much as they conduce to greater energy of administration and afford means of more directly controlling public expenditure. To the community also they are often of important service ; and, even though not giving a return which would justify their construction or retention as commercial undertakings, have indirectly contributed no doubt to the increasing prosperity of the country.
>
> 3. As regards those lines which might properly be regarded as commercial lines.—lines, that is, connecting the great centres of commerce, Colonel Glover has also shown that it is scarcely fair to judge their remunerative nature by a comparison with the commercial lines of England or of any European country.
>
> 4. The far greater distance between the centres of commerce in India. and the greater difficulty of maintaining the lines arising from causes connected with the nature of the country through which they pass, and of the climate, put the case wholly on a separate and special footing and make it difficult to render even such lines very remunerative.
>
> 5. At the same time it has been, as the Officiating Director General points out, the careful study of the Government of India to avoid constructing, as far as possible, lines which do not at least pay their own working expenses ; but as already indicated above, the importance of lines to the Government and to the public is not in any degree to be measured by the magnitude of their returns ; and the exigencies of the Public Service and Political and Military considerations must. in a large majority of instances, override all considerations of economy. Under these circumstances. and with regard to the general working and to the manner in which telegraphic communication has been introduced into India, the Governor General in Council is not disposed to consider the financial results, disclosed by Colonel Glover's papers, as wholly unsatisfactory."

13 The operations of the two Departments developed side by side with the general development of the country and by the year 1888 it became possible to regard the Post Office and the Telegraph Department as *quasi* commercial Departments which according to Resolution No 4145, dated the 28th July 1888 issued by the Government of India in the Department of Finance and Commerce are maintained for the purpose of rendering particular services on payment made for the services rendered or for the articles supplied and the functions of which are not part of the ordinary ideas of Government or administration

14 It is a far cry from 1867 to the present times and the lapse of time is evidenced in the change of policy that has taken place in the interval The first public indication of the new orientation that we have been able to trace is contained in a speech made by the Hon ble Sir (then Mr) Malcolm Hailey Finance Member of the Government of India in the budget debates of the Legislative Assembly on the 10th March 1921 when he stated that ' the Telegraph Department like the Postal Department is a source of revenue to the country but we have not I can admit to the House been able hitherto to get the exact amount of net revenue which the Posts and Telegraphs Department brings us in '

15 The most recent declaration of the policy of the Government in respect of the combined department is contained in the following statement made by the Hon ble Sir Atul Chatterjee Member in charge of the Department of Industries and Labour in the Legislative Assembly on the 12th March 1924 —

> I entirely agree with Mr Neogy in considering that the Post Office should be looked upon as public utility service But in the same way as the Railways and any other organisations which are for the benefit of the general public and are looked upon as public utility services should at the same time pay their way I consider that the Post and Telegraph Department should pay its own way and I have the authority of my Honourable Colleague the Finance [illegible] t do not look to the Postal [illegible] nue earning Department [illegible] Honourable friend At the same time I wish him to understand that there is no reason whatever why the Postal and Telegraph Department if it is properly managed should be a burden on the tax payer It has to be remembered that the Government enjoy a valuable monopoly in the Postal and Telegraph Department and in my view that monopoly should be so worked as to be a source of benefit to the general tax payer without being a burden on him "

16 The changes in policy have always reacted on the system of accounts Prior to 1st April 1914 the Post Office and Telegraphs were two separate Departments each with its own accounts The gross receipts of the two Departments formed part of the revenues of the Government of India who found all the money required for expenditure whether working expenses or capital A capital head of accounts was not allotted in the general scheme of Government accounts to either Department and all expenditure whether Capital or Working Expenses was included under the same major head Moreover expenditure incurred in the Public Work Department on buildings meant for the two Departments [illegible] ord under the Public Works heads of accounts A *pro form* [illegible] t

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the Capital Outlay in the Indian Telegraph Department was included, however, in the Telegraphs section of the Finance and Revenue Accounts of the Government of India, beginning with the year 1871-72.

17. The two Departments were combined in 1914 but the only important change then made was that the receipts and expenses of both the Departments were shown under a single major head in the Finance and Revenue Accounts. A statement of Capital Outlay on Telegraphs continued to be attached as an Appendix.

18. This arrangement continued until the reorganisation of the accounts made in connection with the constitutional changes consequent on the passing of the Government of India Act, 1919. The changes effected in 1921-22 were as follows :—

(*i*) Two capital heads were provided for recording Capital Outlay, one outside, and the other within, the Revenue Accounts of Government.

(*ii*) It was decided that the expenditure incurred by the Public Works Department on buildings meant for the use of the Indian Posts and Telegraphs Department should be recorded, finally, under the Capital heads mentioned above.

(*iii*) The original Capital Outlay incurred by the Public Works Department in the past on Posts and Telegraphs buildings was also transferred to those heads, but without any financial adjustment.

(*iv*) Commencing with the accounts for 1921-22 Capital Outlay on Telegraphs, other than that on stores and suspense, was debited to "Capital Outlay not charged to Revenue". Outlay on the purchase of stores for Telegraphs and all Capital Outlay on Postal buildings continued however to be charged to "Capital Outlay charged to Revenue".

(*v*) Changes were also made in the accounts of working expenses of the Department. Interest on Capital Outlay was charged for the first time in the accounts for the year 1921-22, a separate major head being opened for the purpose in the Revenue section of Government accounts. Superannuation allowances and pensions were debited to the Department for the first time in the accounts for the year 1923-24, while credits for work done by the Department on behalf of other Departments, like those in connection with the Savings Bank and Cash Certificates, etc., were included in the departmental accounts for the first time in 1924-25.

19. The changes described in the preceding paragraphs relate to the official accounts of the Government of India as presented annually to Parliament. In addition, *pro forma* statements, purporting to show the general financial position of the Post Office and of the Telegraph Department used to be prepared and included in the annual Administration Reports submitted by the heads of the separate Departments prior to 1914, and by the Director-General of Posts and Telegraphs, after that date, to the Government of India up to the year 1924-25 ; but our conclusion, reached as a result of our examination of the methods in force before the

1st April 1925 is that the accounts for the years ending with the financial year 1924 25 were not commercial accounts in the real and accepted sense of the term It is evident therefore that no attempt at a comparison of the profits or losses on the working of the Department after the commercialisation with those shown in the accounts prior to that date is possible at this stage Any estimate that may therefore be prepared of the aggregate surplus or deficit on the working of the Department in the past is likely to be erroneous and misleading

CHAPTER IV.

Capital and Block Accounts.

23. As its name indicates, the Capital Account shows the total amount of Capital Outlay on fixed assets, such as land, buildings, plant and machinery, and of working capital in the shape of stores and capital suspense accounts. It also includes capital receipts. The term " Block Account " is used to indicate " a valued register of assets ", the maintenance of which is essential to a commercial system of accounts. The total of the Block Account represents the value of fixed assets and is thus included in the Capital Account.

24. The development of the Capital Account of the Department to the eve of " commercialisation " and thereafter has been described briefly in the preceding two chapters. It is, however, necessary to state here that although the two capital heads of accounts, " 56—Capital Outlay not charged to Revenue " and " 18—Capital Outlay charged to Revenue ", were continued after 1st April 1925, the method of booking was altered substantially. All Capital Outlay in the Department including that on " stores " and on " works in progress " in the workshop, is initially recorded under " 56—Capital Outlay not charged to Revenue ". Subsequently, the amount relating to Post Office buildings and Railway Mail vans is transferred to " 18—Capital Outlay charged to Revenue ". This, however, does not make any difference to the finances of the Department ; as stated before interest is charged on all capital outlay.

25. A valuation of telegraph assets was made in 1872 and a valuation of the assets of the combined Department was made in the years 1924 and 1925 in connection with the commercialisation. An inventory of all assets existing on 1st April 1925, was obtained from the officers in charge, and the assets were valued either on the basis of recorded information, or by the application of certain average costs per unit. In the sequel, a deficit was found and had to be written off. The details of the deficit are explained below.

The recorded Capital Outlay at charge of the combined Department at the end of 1924-25 was :—

		Rs.
Capital Outlay not charged to Revenue	..	3,40,01,064
Capital Outlay charged to Revenue	..	18,49,44,790
Total	..	21,89,45,854

As a result of the valuation, the capital of the Department was fixed at Rs. 20,20,23,566 leaving a deficit of Rs. 1,69,22,288. Subsequent investigations, chiefly in connection with buildings, reduced, by the end of 1929-30, the amount of this deficit to Rs. 1,29,83,517 composed of the following items :—

			Rs.
(*a*) Errors in accounting	..	..	17,44,602
(*b*) Value of assets which had ceased to belong to the Department	..	..	5,51,048

	Rs
(c) Net transfers from Capital	—4 77 083
(d) Unexplained differences net (details given below)	1 11 64 950
Total	1 29 83 517

The details of the unexplained differences included above were as follows —

	Decrease of Capital at charge	Increase of Capital at charge
	Rs	Rs
Buildings		17 30 807
Lines and Wires	96 32 428	
Apparatus and Plant	32 98 055	
Masts and Aerials		34 726
	1 29 30 483	17 65 533
Net decrease of Capital	Rs 1 11 64 950	

26 If retrospective effect is given to these corrections which were made in various years since 1925 26 inclusive the net amount left at charge of the Capital Account on 1st April 1925 would be Rs 20 59 62 337 comprising —

	Rs
Fixed assets	18 98 99 933
Stores and Suspense	1 60 82 238
Total	20 59 82 171
Deduct Receipts on Capital Account	19 834
Net Total	20 59 62 337

27 As mentioned at item (1) of paragraph 21 it was decided that the initial amount at charge of the Block Account should be the depreciated value of existing assets as on 1st April 1925 The next stage of the valuation undertaken in the years 1924 and 1925 consisted therefore of a calculation of the depreciated value which together with the accrued depreciation or arrears in depreciation as it has been termed in the Valuation Report makes up the original value of the fixed assets as shown in the previous paragraph For this purpose the Chief Engineer Telegraphs fixed the expected effective lives and residual values of various classes of assets But the difficulty of the problem did not end

with this because very little information was available in the Department, as to the dates of the original construction or last reconstruction prior to 1st April 1925, of a large portion of the property. This difficulty was finally overcome, by the officer entrusted with the valuation, by estimating, for property for which reliable information was not available, an average age on 1st April 1925. This having been done the problem became simple ; and the accrued depreciation was calculated by the application of the usual straight line method.

28. The accrued depreciation on 1st April 1925, as originally fixed in the Valuation Report was Rs. 9,30,76,950. As a result of corrections made subsequently, the amount at the end of 1929-30 was Rs. 9,09,85,728. The capital account on 1st April 1925, as fixed in 1930, comprised the following items :—

		Rs.
I. Fixed assets—		
Depreciated value, as on 1st April 1925 of assets constructed to end of 1923-24 Rs. 8,84,11,268.		
Original cost of assets constructed during 1924-25 Rs. 1,05,02,937	.. ..	9,89,14,205
II. Stores and Manufacture Suspense—Opening balances	.. .. ..	1,60,82,238
Total	..	11,49,96,443
III. *Deduct* Receipts on Capital Account	..	19,834
Net	..	11,49,76,609

29. The opening balance of the Stores and Manufacture Suspense Account (Rs. 1,60,82,238) included in the Capital Account of the Department for 1925-26 represented the book value of the stores, etc., on 1st April 1925. No attempt was made at the time of commercialisation to determine separately the book value of obsolete and unserviceable stores held in stock and included in the opening balance. From the Appropriation Accounts of the Department for the five years 1925-26 to 1929-30 it appears, however, that a total sum of Rs. 21,64,643 has been written off during that period, by debit to Working Expenses, as the loss incurred in the disposal of unserviceable and obsolete stores. The revised estimate for 1930-31 contains a further provision of Rs. 2,55,000 for the same purpose. In addition, a sum of Rs. 5,91,000 has been debited to the Working Expenses of the Department in the three years 1927-28 to 1929-30 on account of the 'writing down' of the value of serviceable stores which were borne on the books at too high a rate. We understand that these writes-off have been sanctioned as a result of investigations made by a special committee appointed by Government to deal with a large accumulation of old stores.

30. We consider that the stores in stock immediately prior to commercialisation should have been examined, and that the value of only such stores as were serviceable should have been included in the opening

balance of the Stores Account on 1st April 1925 Similarly, stores which were serviceable should have been included only at their proper written down value We think it is unfair to burden the commercial accounts of the Department as constituted from 1st April 1925, with the abnormal loss on the disposal of a large amount of unserviceable material accumulated in the past The Department has suffered a further loss in that it has had to pay interest on this total amount of Rs 30 10 643 from the date of commercialisation to the various dates on which different lots of this material were disposed of or to the date when the value was written down We recommend that both the items of loss should be taken into account in assessing the net result of the working of the Department after commercialisation

31 The Capital Account includes a sub head entitled "Receipts on capital account" intended to provide for the reduction of the capital at charge, in cases in which the sale proceeds of an asset are substantially in excess of the amount included in the Block Account in respect of that asset Sir Arthur Dickinson who was requested by Government to examine the propriety of this arrangement, made the following remarks —

> "The realised surplus over original cost less accrued depreciation resulting from the disposal of a fixed asset should be credited to a capital reserve account to which should be charged any losses due to sales of similar assets for sums less than the difference between the original cost and the amount standing to the credit of depreciation fund in respect of those assets"

We agree that as a matter of correct accounting it would be preferable to have a capital reserve account so that such credits may not appear as part of the main Capital Account

CHAPTER V.

Depreciation and Lives of Wasting Assets.

32. The question of the rates for calculating the annual depreciation of the wasting assets of the Posts and Telegraphs Department has received specific and prominent mention in our terms of reference, and has received a very large amount of detailed examination at our hands. Depreciation is a true element of cost and, in modern accountancy, a proper proportion of the capital invested in the wasting assets of an undertaking is always included, in one form or another, in the cast of the products manufactured or services rendered.

33. There are several methods for determining the proportion of capital that should be set aside in each year or other accounting period, but they have all one object in view, which is to secure that by the time the asset is expected to become useless, the capital invested in it is recovered from the earnings. The estimating of the period during which the asset is likely to render useful service, or the 'life' as the period is termed by Accountants, is therefore a matter of prime importance. If the life is under-estimated the cost per unit goes up, and as prices are generally competitive the accounts of the undertaking show a loss. If on the other hand the lives are over-estimated, the cost is understated and the accounts show an exaggerated profit.

34. As mentioned before, the 'lives' of different classes of assets used in the valuation and adopted for the Depreciation Fund calculations, were fixed by the Chief Engineer, Telegraphs, on the best information then available to him. They are shown in Appendix 1 attached to this report. We have ascertained that the net life of each class was arrived at, after making deductions from the estimated physical life, for climatic conditions, accidents, reconstructions, obsolescence and, in the case of copper wire, even for thefts. In other words, the lives fixed were net effective lives for each life group.

35. From the documents placed at our disposal, we also learn that it was intended that the estimate of lives and the working of the Depreciation Fund should be reviewed after a few years' experience had accumulated. The experience has been striking, and the disparity between the amounts contributed to the Depreciation Fund during the period from 1st April 1925 and the amounts actually spent on renewals and replacements was noticed by the Accountant-General, Posts and Telegraphs, in his Report on the Appropriation Accounts of the Department for 1927-28. The matter was discussed by the Public Accounts Committee in their sittings of 1929 and their discussions led eventually to the appointment of our Committee. A detailed comparison between the annual contributions and the annual expenditure on renewals and replacements, in respect of various classes of assets, has been instituted in a statement supplied by the Financial Adviser, Posts and Telegraphs, reproduced as Appendix 2 to this report, and the total amounts for the six years ending 1930-31 are as follows :—

	Contributions.	Renewals and Replacements.
	Rs.	Rs.
Buildings	5,30,525	3,07,312
Posts	68,36,417	16,76,671

	Contributions	Renewals and Replacements.
	Rs	Rs
Iron wire (Telegraphs)	26 54 411	13 43 350
Iron wire (Telephones)	6 63 015	43 732
Copper wire	30 09 503	4 36 441
Accumulators	6 32 359	2 44 869
Manual Exchange	3 98 844	3 58 401
Automatic Exchange	5 02 331	13 266
Subscribers Apparatus	8 21 651	21 508
Masts and Aerials	85 678	7 910
Other items	15 96 242	3 48 265
Electric Installation	4 10 141	87 50[illegible]
Cables	6 57 214	2 73 519
Total	1 87 88 331	51 62 749*

*N B—This is the gross expenditure on the renewal of assets of the kinds mentioned Only a part of it aggregating about Rs 13 lacs was found from the Depreciation Fund while the balance was met from interest bearing advances

36 The disparity is admittedly very large but it is necessary to mention certain considerations which must deter one from drawing any definite conclusions as to the correctness of the annual contributions on the basis of these figures The annual contribution is determined not only by the life span of the asset but also by the original cost Consequently even in a running concern of considerable age if there is a series of years in which there was a marked increase in the cost per unit of plant due to a rise in prices the contributions for depreciation during the succeeding years will be heavier than usual and this disparity will not disappear until the plant erected in the period of high prices has been reconstructed at the end of the life span at rates which are markedly lower if not entirely normal Again with assets the estimated life span of which is fairly long e g 30 years for posts 24 years for iron wire and 75 years for buildings the experience of six years or even more cannot be a reliable guide as to the correctness of the assumed life Lastly there is the consideration that the assumed life is an average figure fixed after taking into consideration a number of factors such as climate soil accidents etc Even in the same class of assets these factors have varying influence in determining the actual date of reconstruction Experience in other countries has shown that even in respect of a homogeneous life group of assets subject to the same climatic and other conditions reconstructions do not all become necessary exactly on the expiry of the life but are spread over some years before and after that date Remembering the great variety of conditions to which the plant of the Posts and Telegraphs [illegible] ety of material [illegible] a very marked [illegible] eral years both before and after the date of expiry of the life Taking these considerations into account the testimony of the figures contained in the statement is not by itself sufficient for questioning the suitability of the lives fixed by the Chief Engineer Telegraphs

37. We accordingly decided to obtain as large a body of direct evidence as was possible from gentlemen competent to express an authoritative opinion on these matters. The names of the witnesses who appeared before us have been given elsewhere. We examined a number of selected officers of the Department who had large experience of the plant used by the Department. In addition, the Chief Engineer, Public Works Department, New Delhi, was good enough to furnish us his views on the life of buildings through the Chief Controller of the Indian Stores Department. Lastly, we also examined two gentlemen of the commercial community engaged on business involving the manufacture and use of plant similar to that used by the Department. The unanimous opinion of all these witnesses is that the lives fixed in 1925 and used in the Valuation Report are, in the majority of cases, largely under-estimated.

38. After weighing the large body of evidence that became available to us, we have come to the same conclusion, and, except in one or two cases, our proposals involve a lengthening of the 'life' for each class of asset. The lives which we recommend and the reasons therefor are set out below, but we desire to state that the life as recommended by us is, in every case, the net effective life, fixed after taking into consideration, all the usual factors, *viz.*, the influence of climate, soil, and atmosphere, liability to damage by accidents, storms, floods, and cyclones, and ordinary obsolescence. Moreover, they are 'averages' applicable to the plant in its entirety and not to a particular plant or to that in a particular area or locality. The residual values recommended by us represent percentages applicable to the original value *in situ*. The lives and residual values of such assets as are not dealt with specifically should, in our opinion, be left unchanged at the present figures.

(*i*) *Buildings*.—The life of buildings varies naturally with the design, the material and the climate, etc. Under the rules for allocation in force in the Department, temporary structures and buildings of small value are not included in the Block Account. Moreover, the bulk of the cost of the departmental buildings has been incurred in Presidency towns and large cities, and at the headquarters of districts where, invariably, the buildings are constructed by competent engineers and the structures are soundly designed and of good material. We also examined the register of buildings maintained by the Accountant-General, Posts and Telegraphs and obtained specific evidence from witnesses with personal knowledge who testified to the good condition and large residual life of some very old buildings which are in use at present. We recommend, after making allowance for obsolescence, that the net life of buildings should be fixed at 100 years, the present life being 75 years. Following the present practice we do not propose to fix any residual value.

(*ii*) *Electric lights and fittings, etc.*—The 'life' of these assets fixed at present is 12 years net, with a residual value of 5 per cent. We recommend a net life of 16 years with a residual value of 3 per cent.

(*iii*) *Underground cable.*—The life fixed at present is 24 years with a residual value of 5 per cent. We recommend the life being increased to 36 years net, as an average for all classes of underground cable used in the Department, whether laid 'solid', or directly underground. We leave the residual value of 5 per cent. unchanged.

(iv) *Submarine cable*—The life fixed now is 12 years net without any residual value After taking into consideration the great liability of this class of asset to damage and loss from accidents in rivers we recommend a net life of 20 years without any residual value

(v) *Aerial cable*—The present life is 10 years with a residual value of 5 per cent In view of the rapid deterioration to which aerial cables are subject in India we recommend that the life be left unchanged at 10 years net but that the residual value be reduced to 3 per cent

(vi) *Posts (including brackets)*—The Department uses three kinds of posts *viz* wooden rail and galvanized tubular The number of the first named is very small and may be left out of consideration The present estimate of the life of posts is 30 years net with a residual value of 10 per cent On the evidence before us we should be justified in increasing the life to at least 50 years but to be on the safe side we recommend a life of 45 years net as an average for all kinds of posts We would leave the residual value unchanged at 10 per cent

(vii) *Copper and bronze wire*—The amount of bronze wire used is very small The life taken in the Valuation Report for both kinds of wire is 27 years with a residual value of 20 per cent As an average for the whole of India we recommend a net life of 40 years and we would raise the residual value to 30 per cent

(viii) *Iron Wire Telegraph Circuits*—The life prescribed at present is 24 years with a residual value of 4 per cent As an average for the whole of India and taking into account the liability to corrosion of wires near the sea coast we recommend a net life of 36 years with the old residual value of 4 per cent The evidence before us would have justified our fixing a longer life but we prefer to take a cautious view

(ix) *Iron Wire Telephone Circuits*—The life of this class of wire is low as it is generally light gauge wire The life fixed at present is 10½ years with a residual value of 4 per cent On the evidence before us we recommend an average net life of 15 years with no change in the residual value

(x) *Wireless masts aerials and earths*—This is a composite group the life of masts being very much longer than that of aerials and earths The difference in life is compensated for however by the difference in the proportional costs of the two components in the average wireless installation Moreover this class of plant is in the present condition of wireless telegraphy and telephony liable to rapid obsolescence The present life is 30 years with a residual value of 10 per cent Taking into consideration the respective lives and comparative values of the components we recommend an equated life of 15 years net for the whole group or a reduction of 15 years on the present life We also recommend reducing the residual value from 10 per cent to 8 per cent

(xi) *Manual Exchanges Private Switch Boards*—The life fixed at present is 12 years with a residual value of 5 per cent We recommend a net life of 15 years but with the same residual value

(xii) *Engines Motors and Switch Gears etc*—The life fixed at present for all kinds of this plant including those used in wireless stations is 12 years with a residual value of 5 per cent In view of the rapid obsolescence of wireless plant we recommend that the group should be

divided into two portions, one for wireless and another for the plant in other branches. For the former we recommend a net life of 12 years and for the latter a net life of 16 years. We recommend a residual value of 2 per cent. for either class.

(*xiii*) *Automatic Exchanges.*—Practically no experience of the effective life of automatic telephone plant is available at present. The life fixed now is 20 years net with a residual value of 10 per cent. As we desire to be conservative, we recommend a life of 25 years net with a residual value of 5 per cent.

(*xiv*) *Subscribers' Apparatus.*—The life fixed at present is 8 years with a residual value of 5 per cent. On the evidence before us, we feel justified in recommending a life of 10 years with a residual value of 5 per cent.

(*xv*) *Electric and Telegraph Instruments.*—The life fixed at present for this class, including plant used in wireless stations, is 12 years net with a residual value of 5 per cent. As in the case of "Engines, motors and switch gears, etc.", we recommend that the group be divided into two sub-groups, so that wireless instruments and apparatus may be separated from other varieties. For the former we recommend a life of 10 years without any residual value, while for "the electric and telegraph instruments" of other branches we recommend a life of 25 years with a residual value of 5 per cent.

(*xvi*) *Accumulators.*—We do not recommend a change either in the life or in the residual value of accumulators and our recommendation in favour of the present estimates applies equally to all accumulators including those used in wireless stations.

(*xvii*) *Workshop Plant and Machinery.*—The present estimate of life is 20 years and we would leave it unchanged. The residual value should be reduced from 10 per cent. to 5 per cent.

(*xviii*) *Motor Vehicles and Launches.*—We would leave unchanged the life fixed at present, *viz.*, 10 years with a residual value of 10 per cent.

39. We have given our recommendations as to the residual values of various classes of plant in the preceding paragraph when dealing with the lives. We revert however to our recommendation to increase the residual value for copper wire from 20 per cent. to 30 per cent. Some of the witnesses have recommended the residual value being placed much higher. We are, however, impressed by the large fluctuations in the market price of new copper, which naturally controls the price that can be obtained from the sale of scrap copper, and consider that on the whole 30 per cent. is the most appropriate figure.

40. The lives and residual values recommended by us as well as those in use at present are given in Appendix 1 to this report.

CHAPTER VI

Allocation of expenditure between Renewals and Replacements and Working Expenses

41 Some of the causes of the disparity between the actual expenditure on renewals and replacements, and the amounts of the annual contributions to the Depreciation Fund, have been indicated in paragraph 36 As a result of our proposals for the refixation of lives, the disparity will be remedied to the extent it was due to the under estimation of the effective lives of assets Our examination of the matter leads us to think, however that the disparity is not due solely to the inappropriateness of the lives hitherto adopted, but also to other causes For instance, the average amount spent annually on the renewal and replacement of assets in the Posts and Telegraphs Department is about 5 per cent of the original value of the plant, while in the British Post Office it is as much as 2 per cent This may be due either to the standard of maintenance being higher in India than in Great Britain or to the Indian rules governing the allocation of expenditure between ' Working Expenses ' on the one hand and Renewals and Replacements ' on the other, being such as to prevent expenditure which really relates to the latter head from being debited to it

42 Under the allocation rules the following items of expenditure are debited, *inter alia*, to ' Working Expenses ' —

(*i*) Cost of reconstructing a portion of a building, if Rs 1 000 or less

(*ii*) Cost of replacing a motor vehicle or launch if less than *Rs 10,000*

(*iii*) Cost of replacing parts of subscribers' telephone apparatus

(*iv*) Cost of replacing internal telephone wiring in subscribers' premises if the cost is Rs 50 or less

(*v*) Cost of replacing any other asset if the amount is Rs 250 or less

(*vi*) Expenditure on the dismantlement, shifting or re alignment of lines and wires

(*vii*) Cost of replacing or renewing an asset when it is not debitable to renewals and replacements

43 Similar limits have also been prescribed in the rules for allocation of expenditure between Capital and Revenue but we consider that the application of the same rule in allocations between a Depreciation Fund and Working Expenses vitiates the accounts to a serious degree If in the case of an asset, the whole cost of which was charged to Capital, only *a small portion has to be replaced at a cost falling within these limits* the expenditure is debited to Revenue in spite of the fact that Revenue has been contributing to a fund created for this contingency ever since the original asset was erected The aggregate amount of such items in a large undertaking will be very large We have obtained from the Department a statement of the cost of erecting a single unit of each class of plant, and we find that the monetary limits *imposed at present in respect* of renewals and reconstructions are high enough to cover the cost of erecting to quote a few examples, several new posts several spans of copper wire and several miles of iron wire

44. It has been suggested to us that the imposition of these monetary limits saves the preparation of a large number of detailed estimates for petty works of reconstruction, as they can be charged to the grant for maintenance for which detailed estimates are not necessary. We do not consider this a sufficient justification for a rule which vitiates the accounts so considerably. The saving in clerical and other work involved in the preparation of estimates, can also be effected by some suitable device like that of a single omnibus estimate to cover all such expenditure during the year. We are strongly of the opinion, therefore, that there should be no monetary limits in the matter of expenditure debitable to renewals and replacements, and that in accordance with the practice followed on State Railways the cost of replacing complete units should be charged to the Depreciation Fund. We understand that the application of the 'unit' principle was considered when the rules were framed but that it was found impossible to define precisely what constituted a unit. We consider, however, that the difficulties should not be insuperable.

45. There is yet another way in which expenditure chargeable to renewals and replacements is being possibly debited to Working Expenses. Some officers of the Department have deposed before us that the cost of repairing damage done by storms is charged almost entirely to Working Expenses despite the fact that the liability to serious damage by floods, cyclones and storms was taken into account in fixing the normal effective life of plants. The Accountant General to whom the matter was referred has stated that the expenditure on storm repairs is allocated according to the character of the work involved irrespective of the cause. It was not possible for us, during the time at our disposal, to investigate this matter in detail but we have no doubt as to the impropriety of debiting the cost of replacements necessitated by storms and accidents to Working Expenses, when this contingent liability was and is definitely provided for by the annual contributions for depreciation. We recommend, therefore, that this matter should be investigated fully and necessary orders issued so as to ensure that the contribution is utilised for the purpose for which it is made.

46. There is yet another provision in the allocation rules deserving of comment. A portion of the annual expenditure on the maintenance of lines and wires is transferred annually to the debit of the Depreciation Fund. The amount to be transferred in this manner is determined in accordance with the instructions contained in the following extract from the Posts and Telegraphs Initial Account Code, Volume II—Engineering Account Code :—

> " 110-A. Petty expenditure on replacement of posts including brackets, stays, couplings, etc., and wires including insulators, which is recorded under the head " Repairs to Telegraph and Telephone lines—Pure Maintenance " under " XV—Deduct Working Expenses " is a proper charge to the head " 56-I (*b*)—Renewals and Replacements of Wasting Assets ", as such replacement has the effect of prolonging the lives of the assets concerned. A portion of the expenditure booked against " Pure maintenance charges " under Working Expenses should, therefore, be transferred annually by the Deputy Accountant-General, Posts and Telegraphs, Telegraph

Branch Calcutta to the head " 56 I (b)—Renewals and Re placements ' at the rates given below —

TELEGRAPHS

Stores—50 per cent of the gross value of stores issued to pure maintenance

Cash—30 per cent of the value of stores transferred together with freight charges

TELEPHONES

Stores—20 per cent of the gross value of stores issued to pure maintenance charges

Cash—30 per cent of the value of stores transferred *together with freight charges*

Of the amounts thus transferred to the head 56 I (b) 50 per cent should be allocated to Posts and the other 50 per cent to Wires—Iron and Copper—in proportion to the wire *mileage under each The final distribution of this amount* between the head 56 I (b) and the Depreciation Fund will be determined in accordance with the principle laid down in Article 46 of the Posts and Telegraphs Initial Account Code Volume I

In order to enable the Deputy Accountant General Posts and Telegraphs Telegraph Branch Calcutta to allocate the charges between Iron and Copper wire the Divisional Engineers Telegraphs should furnish him early in June every year a statement showing the total wire mileage under each as it stood on the 31st March preceding '

47 It was explained that this arrangement had been authorised on the consideration that the replacement of small parts which is effected at the cost of maintenance serves to prolong the life of the plant If as recommended by us all expenditure incurred in renewing or replacing a ' unit asset is debited irrespective of the amount to Renewals and Replacements ' there may still be we expect some necessity for continuing this practice We suggest therefore that the practice should be continued for one or two years and the matter reviewed in the light of results of the changes in the allocation rules suggested by us

CHAPTER VII.

Accrued Depreciation.

48. Having expressed our view of the decisions taken by Government in respect of the Block Account, and having made our recommendations for the revision of the expected life and residual value of each class of assets, we have now to consider the effect of the latter on the amount of accrued depreciation and on the amount initially at charge of the Block Account on 1st April 1925. To do this it is necessary to examine in some detail one aspect of the calculations made in 1925. We have already stated that for a great portion of the property of the Department reliable information as to the date of the original construction or last reconstruction prior to the commercialisation, was not forthcoming at the time, and that the difficulty was overcome by assuming in respect of each class of asset, the average expired life on 1st April 1925.

49. We have had the advantage of discussing the procedure then adopted with the officer who was entrusted with this duty.

We have also discussed the matter with other witnesses, and they are unanimously of opinion that a better attempt is no more possible now than it was then. After careful consideration we have come to the conclusion that having regard to the complete absence of reliable information as to the date of original construction, or last reconstruction prior to 1st April 1925, in respect of a large proportion of the assets of the Department, and to the fact that the effective 'lives' of various classes of assets had been fixed by competent authorities, the method followed and the results achieved in 1925 were the best that were possible.

50. There is, however, an aspect of the matter to which we desire to draw pointed attention as it underlies the principle which we have adopted for our recalculation of accrued depreciation. In the Report on the valuation of the assets certain expired lives were assigned, on particular dates, to plant the exact dates of construction of which were not known. We felt doubtful of the accuracy, even approximately, of any estimate of the average expired life that was possible in the conditions in which the valuation was made. A number of engineers, with experience of such matters, who appeared before us as witnesses, joined in stating that while an actual inspection of the plant and its general condition could enable an estimate being made of the residual life, or, in other words, the further period for which the property may be expected to last, it was impossible to estimate the expired life or age. The same view has been placed before us in another form by an expert commercial Accountant.

We accept this view and reach the conclusion that the assumptions as to age, made by the officer entrusted with the valuation of the property, were really assumptions as to the residual life of the old property on 1st April 1925, but expressed in another form, and further that in fixing the age and consequently the residual life, he was influenced, as was only right and proper, by the expected life of the plant as fixed by the Chief Engineer, Telegraphs.

51. Going a step further, the natural result of this conclusion is that, in cases where we have recommended a modification of the expected life, the estimates of the residual life on 1st April 1925 should also be reconsidered.

We decided however to place this problem before the Director of Commercial Audit, and his reply is quoted verbatim —

> "I would suggest that depreciation over or undercharged, should under no circumstances be written back at once I would leave the estimated figure for plant as it is until the registers now in preparation are complete or nearing completion Any discrepancy can then be suitably dealt with in the accounts"

52 This view coming from the source it does has received our earnest attention In deciding the matter, we have been influenced by the consideration that the interests of exact accounting demand the inclusion of the modifications that may be necessary as a result of the reassessment of the expected lives of different classes of plant The general lengthening of the expected life recommended by us should lead to a decrease in the 'arrears of depreciation' or the initial opening balance of the straight line Depreciation Fund recommended by us in the next chapter If on the other hand our recommendation as to the latter proves unacceptable, the decrease in arrears of depreciation will lead to a consequent increase in the Block Account and the interest chargeable thereon

53 As regards the recalculation itself, we desire to emphasise that the data available to us to day are in reality no better than those available to the officers entrusted with the valuation in 1925, and that the method we had to follow is also the same All that we have been able to do is to re assess the residual life of each class of asset on 1st April 1925 proportionately with the increase in the expected life recommended by us Having re assessed the residual life we have simply recalculated, on the straight line method, the accrued depreciation and the depreciated value on 1st April 1925, of assets of each class constructed prior to 1st April 1924

54 The method followed may now be described in detail The original value of each class of asset was divided into two portions one representing the value of plant the exact date of construction of which is known and the other that of property about which reliable information is not forthcoming For the former, the accrued depreciation has been calculated by applying the usual straight line method on the basis of the lives and residual values recommended by us In respect of the latter we re assessed the unexpired life on 1st April 1925 increasing or decreasing it as compared with that fixed in 1925 proportionately with the increase or decrease in the life span An instance will make the method clear In the [illegible] were assu[illegible] t of a total [illegible] at a fifth [illegible] years we [illegible] ultant figures for the ages on 1st April 1925 and 1st April 1906 were thus fixed at thirty six years and seventeen years, respectively, as against twenty four years and five years taken in the Valuation Report

55 For those assets the exact date of construction or last reconstruction of which is not known, we thus fixed separately for each class, the prospective lives and the ages on 1st April 1925, as shown in the sub-

joined table. For purposes of comparison we have also shown in the same table the ages and prospective lives on the same date as fixed in the Valuation Report.

Residual life and age on 1st April 1925 (of assets for which actual dates of construction or reconstruction are not known).

Class of asset.	As in the valuation Report.			As fixed by the Committee.		
	Normal effective life.	Residual life.	Age or expired life.	Normal effective life.	Residual life.	Age or expired life.
Telegraph.	Years.	Years.	Years.	Years.	Years.	Years.
Posts	30	6	24	45	9	36
Copper wire ..	27	4	23	40	8	32
Iron wire	24	1	23	36	2	34
Submarine cable ..	12	..	12	20	1	19
Underground cable ..	24	5	19	36	8	28
Instruments ..	12	7	5	25	15	10
Engines, motors, etc.	12	7	5	16	9	7
Telephone.						
Posts	30	6	24	45	11	34
Iron wire	10½	..	10½	15	..	15
Underground cable ..	24	..	24	36	2	34

We have to add that, as the total original cost of buildings and electrical installations, the actual date of construction of which is not known, is very small, *viz.*, Rs. 2,98,429 out of a total original cost on 1st April 1925 of Rs. 3,62,65,618, we did not consider it necessary to recalculate the arrears of depreciation in respect of such buildings. For others, the ages of which are known a recalculation has been made.

56. Having fixed anew the expired life of each class of asset on 1st April 1925 the arrears of depreciation have been recalculated in the ordinary way on the basis of the new lives and residual values on the "straight line" formula. The detailed results of our calculations are set out in Appendix 3 to this Report. The accrued depreciation on 1st April 1925 comes to Rs. 8,25,35,096 compared with Rs. 9,09,85,728 fixed at present (*vide* paragraph 28). The aggregate decrease in the arrears of depreciation due to the revision of lives and residual values is thus Rs. 84,50,632. The results are summarised in the following table separately in respect of each branch of the Department :—

Branch of the Department.	Original value on 1st April 1925.	Arrears of depreciation on 1st April 1925.	Depreciated value on 1st April 1925.
	Rs.	Rs.	Rs.
Post Office	2,37,25,998	58,48,201	1,78,77,797
Telegraphs	14,62,89,457	6,98,72,526	7,64,16,931
Radio telegraphs	47,01,157	27,96,873	19,04,284
Telephone	1,51,83,321	40,17,496	1,11,65,825
Total ..	18,98,99,933	8,25,35,096	10,73,64,837

57 The accrued depreciation and depreciated values on 1st April 1925 may be classified as follows according as they relate to assets acquired on a date prior to the 31st March 1917 inclusive or to those acquired subsequently :—

Branch	Assets of the period up to 31st March 1917 inclusive		Assets of the period from 1st April 1917 inclusive		Total original value
	Accrued depreciation	Depreciated value	Accrued depreciation	Depreciated value	
	Rs	Rs	Rs	Rs	Rs
Post Office	55 96 378	1 [illegible]7 89 4[illegible]3	2 51 823	50 88 374	2 37 25 998
Telegraphs	6 69 93 689	3 86 25 245	28 78 837	3 77 91 686	14 6[illegible] 89 457
Radios	23 08 958	9 72 478	4 87 915	9 31 806	47 01 157
Telephone	29 45 638	2[illegible] 80 716	10 71 858	88 85 109	1 51 83 321
Total	7 78 44 663	5 46 67 862	46 90 433	5 26 96 975	18 98 99 933

58 In conclusion we desire to point out that the correction of the figure for accrued depreciation recommended by us is purely an exceptional measure justified by the exceptional circumstances in which our Committee has been called together and has made its enquiries The recalculation recommended by us should not be quoted as a precedent for reopening past transactions whenever on subsequent occasions it is found necessary in the light of further experience to revise the lives or residual values as now fixed by us The reasons for this view are fairly obvious Such revisions of the expected lives of plant are incidents common to commercial accounting and are inevitable as more experience is gathered of accounting incidental to the institution of a depreciation fund If every such revision of the life leads to a re fixation of the accrued depreciation it will be impossible to achieve any stability in the results of working as portrayed in the accounts All that should be permitted or attempted in such a case should be a readjustment of the future contribution for depreciation regard being paid of course to over or under provision already made We understand that the principle we recommend for adoption in the Indian Posts and Telegraphs Department in this regard is being actually followed in the British Post Office

CHAPTER VIII.

Straight Line *versus* Sinking Fund.

59. We now advert to an examination of the financial effects, on the Posts and Telegraphs accounts, of the decisions of Government relating to the Block Account, the institution of a depreciation fund, and the financing of the expenditure on renewals and replacements. The decisions may be recapitulated as follows :—

(*i*) The initial amount at charge of the Block Account should be the depreciated or "present" value of the fixed assets as on 1st April 1925 calculated on the 'straight line' method.

(*ii*) The depreciation fund should be worked on the sinking fund plan, under which the interest payable on deposits in the fund should be credited to the fund itself and not to the revenues of the Department. This fund will be required to provide only such depreciation as accrues after the 1st April 1925.

(*iii*) In view of the above decisions, the expenditure actually incurred, each year, on the renewal and reconstruction of assets, after deducting therefrom an amount equivalent to so much of the depreciation of the renewed or replaced assets as might be regarded as having accrued after the 1st April 1925, should be treated as "capital advances".

(*iv*) The aggregate amount that may be debited to capital as a consequence of (*iii*) will be limited to the arrears of depreciation existing at the time of opening the depreciation fund. Owing, however, to the impossibility of identifying a particular asset, with a view to determining its age at the time of replacement or renewal, and distributing the expenditure on replacement between current and accrued depreciation, it will be assumed that, except in special cases of premature replacement, etc., each asset when replaced or renewed after the 1st April 1925 has then lasted out its normal life.

60. The decision at (*ii*) of the preceding paragraph in favour of a sinking fund was made on two grounds. It was considered that, in a state commercial undertaking, there is not the same necessity, as in a commercial concern, for accumulating in the depreciation fund amounts that will, at every stage of the life of each asset, be equal to the accrued depreciation, and that it is sufficient if the original cost of the asset is available in the fund on the date on which replacement is expected. The second and much the more important reason was that in the state of the Department's finances at the time, it was important that the annual contributions for depreciation should be kept as low as possible.

61. The relative burdens upon the revenues of a concern, in operating a straight line depreciation fund and a sinking fund, are illustrated by the calculations given by us in Appendix 4 to this report. An examination of this Appendix leads to the following conclusions :—

(1) Taking into consideration the interest payable on the capital at charge, the interest receivable on the depreciation fund assets, and the contributions for depreciation to be set aside from revenue, a sinking fund is more expensive than a straight line depreciation fund.

(2) At every stage during the life of the asset the amount available in a sinking fund is less than the amount available in a straight line depreciation fund, and the deficit increases with every year of expired life until after about half the life has expired when it begins to decrease

(3) The decrease in the deficits for successive years after about half the life has expired and the ability of the sinking fund to produce on the expiry of the full life the full amount of the original value of the asset are both due to the facts that compound interest is credited to the fund and that the multiplication of interest is more rapid in the latter half of the life period

62 The conclusions set out in the previous paragraph demonstrate that in the case of an old established progressive concern the relative expensiveness of straight line and sinking fund methods is a matter which depends on a number of factors some of which counterbalance each other e g rate of 'acceleration' in the annual capital outlay homogeneity of the assets, uniformity of climatic and other conditions to which the assets are subject, fluctuations in prices regularity of reconstructions etc But the most important one is whether the average age of plant on the particular date is more or less than half the expected life

63 We can now apply these theoretical considerations to the facts of the commercialisation of the accounts of the Department The original value of the 'fixed assets' of the Department on the 1st April 1925 was Rs 18 98 99 933 Substracting from this Rs 1 67 62 339 being the residual value of the assets the amount to be depreciated comes to Rs 17 31 37 594 The accrued depreciation on the same date as recalculated by us and which is the monetary index of the average age of the plant amounts to Rs 8 25 35 096 The average age of the plant of the Department on that date comes therefore to 825|1731ths of the full life In other words the average age of the plant was nearly half the full life Consequently the cost of providing depreciation on the straight line method should not differ appreciably from that on the sinking fund plan provided that in either alternative a depreciation fund was instituted simultaneously with the creation of the Department and not at an intermediate date as was actually done

64 The effect of interest may now be considered The rate at which interest has been charged to the Department on its capital outlay, and that which has been granted on its depreciation fund during the six years of commercialised accounting are shown below —

Year	Rate per cent on Capital Outlay	Rate per cent on Depreciation Fund balances
1925 26	5 66	4 5
1926 27	5 43	3 75
1927 28	5 38	3 75
1928 29	5 63	4 00
1929 30	5 31	4 5
1930-31 R E	5 68	5 68

It will be noticed that excepting for the year 1930-31 the former rate has been considerably higher than the latter, the maximum difference being 1.68 per cent. in 1926-27. Again, as will appear from paragraph 57, the bulk of the arrears of depreciation by which the capital account was reduced relates to a period for which the rate of interest on capital outlay has been fixed in perpetuity at 3.3252 per cent. On the other hand the rate charged on interest bearing advances, for renewals and replacements, is the current rate of interest as shown in the second column of the table given above, and therefore the rate of interest that the Department has to pay and will continue to pay is much higher than if the capital account had not been written down.

65. There was also a further disturbing factor consisting of a mistake in the method of calculating the annual charge for depreciation, the full effects of which do not seem to have been realised. The defect is best described by an illustration. Take an asset with an original value of Rs. 1,000 without any residual value, with an average expected life of 40 years. Suppose also, that both its expired age and remaining life on 1st April 1925 are 20 years so that the depreciated value on that date is Rs. 500. The amount that should have been provided is an amount which, contributed yearly, would have, at compound interest, yielded Rs. 500 at the end of the 'unexpired life' period. The amount to be provided, in the hypothetical case taken, should have been Rs. 15.938 per year. What was actually provided was a sum which would, with compound interest provide Rs. 1,000 in 40 years. This amount for this particular case is Rs. 9.343 per year. It will therefore be seen that the actual amount set aside for depreciation was smaller than what was actually required. The amount that would thus be available at the end of 20 years will be Rs. 293 instead of Rs. 500 as required.

66. Speaking in general terms, to give full effect to the decisions of Government as regards the allocation of the cost of reconstructing an asset between interest bearing advances and the Depreciation Fund, it was necessary that the calculations should be made as if the Department had to maintain two Sinking Funds, one for the assets borne on its Block Account at their depreciated value, and another for those constructed or reconstructed after 31st March 1924. The rate of contribution per rupee of the amount to be depreciated, in respect of the first sinking fund, should have been one that would have yielded the depreciated value of the assets, less residual value, in the estimated unexpired life of those assets. The corresponding rate for the second fund should have been one which would have yielded the original value less residual value, at the end of the full life of that class of asset. In view of the more rapid accumulation of compound interest in a sinking fund in the latter half of the life cycle of an asset than in the earlier half, the rate for the first would be higher than that for the second, the actual disparity depending on the unexpired life of the old assets on 1st April 1925.

67. The increased cost to the Department of providing for depreciation, due to its depreciation fund being started without an appropriate opening balance on 1st April 1925 is shown in the following table based on the lives and residual values recommended by us. The table shows, for each year of commercialised accounting that has passed, the amounts that should have been contributed, on the basis of lives and residual values now fixed by us, to a sinking fund with an appropriate accumulated balance

at its credit on 1st April 1925 (Column 2), amounts that should have been contributed, on the basis of the new lives and residual values, in order to give full effect to the decision that the Department must find all depreciation accruing after 1st April 1925 (Column 3) and lastly the amounts actually contributed, on the basis of old lives and residual values (Column 4).

Sinking Fund Contributions

Year.	Had a fund existed prior to 1925 26 (New lives and residual values) @ 4½%	To a fund started initially in 1925 26 (New lives and residual values) @ 4½%	Actuals (Old lives and residual values)
1	2	3	4
	Rs	Rs	Rs
1925 26 .. .	17,71,576	30,08,849	31,30,657
1926-27 . ..	18,18,339	33,63,207	30 05,142
1927 28	18,82,203	31,20,894	32,75,454
1928 29 . .	19,29,463	31,42,614	33,47,935
1929 30 .. .	19,79,015	31,40,611	33 63,445
1930-31 ..	19,87,864	31,08,290	31,33,000
	1,13,68,460	1,88,84,465	1,92,55,833

68 A comparison of the figures in column 2 with those in column 3 of the table makes it clear that a sum of Rs. 75,16,005 represents the extra cost, imposed on the Department, of providing for depreciation accruing after 1st April 1925, by the fact that the depreciation fund was started at an intermediate stage in the history of the Department The total amount that should have been contributed on the basis of the revised lives is shown to be Rs 1 88,84,465, while the amount actually contributed on the basis of the lives and residual values hitherto in force was Rs 1,92,55 633 That the effect of the original underestimation of lives has been sufficient to compensate for the error made in calculating the annual amount that should have been charged to working expenses to cover depreciation accruing after 1st April 1925 is a mere coincidence If there had been no underestimation of the lives in the first instance, the amount actually available in the depreciation fund to day would have been very much less than the amount that should have been there to meet the liability imposed on the Department. Conversely, the annual contributions that should have been made to the sinking fund from 1st April 1925, on the basis of the old lives and residual values, should have been very much higher than what they actually were

69 We are inclined to think that at the time the sinking fund was preferred to a straight line depreciation fund, on the ground of cheapness, due regard was not paid to the various complications We consider, therefore, that the whole basis must be re examined anew.

70. The arrangement whereby the general exchequer makes interest bearing advances for meeting, partially, the cost of renewing assets borne on the Block Account at their depreciated value, is essentially favourable to the general exchequer and unfavourable to the Department. As stated in paragraph 57, the total "arrears of depreciation" as calculated by us comes to Rs. 8,25,35,096, and of this Rs. 7,78,44,663 appertains to the period ending 1916-17, the rate of interest, on capital outlay, for which period has been fixed in perpetuity at 3.3252 per cent. As and when, the old assets are renewed, and advances are taken, the Department will have to pay interest at the new rates which have never been less than 5 per cent. since 1925. On the rehabilitation of its assets, therefore, the Department has lost and will lose in the shape of interest, at the rate of nearly 2 per cent. per annum. The total amount of interest bearing advances taken for reconstruction in the six years ending 1930-31 comes approximately to Rs. 47,83,884 and the additional charge for interest, calculated at the difference per cost per annum between the rate of interest actually charged on capital outlay in those years and 3.3252 per cent. comes to Rs. 1,05,617 per annum. This increase is a recurring and ever increasing burden and the only prospect of its diminution lies in a fall in the general rate of interest payable on Government borrowings to 3.3252 per cent.

Then again, the decision to write down the capital account instead of giving the Department an opening balance in its depreciation fund equal to the arrears of depreciation on 1st April 1925, imposes an unnecessary and unjustifiable burden on the finances of the Department over a large number of years to come, whether the depreciation is calculated on the straight line or on the sinking fund plan. The extent of this unnecessary burden, if the sinking fund plan is retained, has been indicated in paragraph 68,—that on the straight line would have been heavier still.

71. We consider, however, that all these results are misleading and a correct perspective can be obtained only by a reconstitution of the depreciation fund account on the following basis :—

(1) that the capital account of the Department is left unchanged at the amount shown in the Finance and Revenue Accounts on 31st March 1925 except for Rs. 1,29,83,517 which was written off as representing errors in accounting, wrong allocation of expenditure and value of assets lost or abandoned, etc. ;

(2) that the Department should pay interest on the full amount of the capital at charge at 3.3252 per cent. in respect of outlay incurred up to the year 1916-17 inclusive, and at varying rates for outlay in subsequent years ;

(3) that the depreciation fund of the Department is given an initial opening balance of Rs. 8,25,35,096, being the amount of the arrears of depreciation on 1st April 1925 ; and

(4) that as the arrears of depreciation are calculated on the straight line method, the depreciation fund should continue to be worked on the same method and interest on the depreciation fund balances should, following the usual practice, be credited to the revenues of the Department.

72 The account of the straight line depreciation fund for the six years ending *1930 31* would be as follows —

Depreciation Fund Account (Straight line).

Year.	Opening balance	Contribution	Withdrawals for reconstruction	Closing balance
	Rs	Rs	Rs	Rs
1925 26	8,25,35,096	41,98,309	10,80,375	8,56,53,030
1926 27 .. .	8,56,53,030	43,38,713	11,06,976	8,88,84,767
1927 28 . ..	8,88,84,767	45,18,390	10,29,202	9,23,73,955
1928 29 . ..	9,23,73,955	46,75,079	11,31,485	9,59,17,549
1929 30	9,59,17,549	48,02,794	8,40,915	9,98,79,428
1930 31 . ..	9,98,79,428	48,31,155	9,07,000	10,38,03,583
Total ..	..	2,73,64,440	60,95,953	

73. The effects on the profit and loss account of the Department would have been as shown in the subjoined table, but we would point out that the rates of interest on the balances of the depreciation fund are those which were actually allowed by Government in the respective years, and not the rates charged in those years on the capital outlay of the Department.

Effects on the Profit and Loss account, of the straight line Depreciation Fund from 1st April 1925 to 31st March 1931.

Year.	Increase in interest on Capital outlay.	Contribution for Depreciation.			Additional expenditure in the year (column 2+5).	Interest earned on Depreciation Fund balances.	Surplus + or deficit — of column 7 compared with column 6.
		Amount required on the straight line basis.	Amount actually contributed on the Sinking Fund basis.	Additional amount required (column 3—4).			
1	2	3	4	5	6	7	8
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1925-26 ..	28,53,969	41,98,309	31,30,657	10,67,652	39,21,621	37,84,233	—1,37,388
1926-27 ..	27,86,352	43,38,713	30,05,142	13,33,571	41,19,923	32,72,584	—8,47,339
1927-28 ..	27,42,728	45,18,390	32,75,454	12,42,936	39,85,664	33,98,601	—5,87,063
1928-29 ..	27,06,880	46,75,079	33,47,935	13,27,144	40,34,024	37,65,830	—2,68,194
1929-30 ..	26,55,183	48,02,794	33,63,445	14,39,349	40,94,532	44,05,432	+3,10,900
1930-31 (Revised Estimate).	26,26,578	48,31,155	31,33,000	16,98,155	43,24,733	57,84,597	+14,59,864
	1,63,71,690	2,73,64,440	1,92,55,633	81,08,807	2,44,80,497	2,44,11,277	—69,220

It will be seen from the table given above that on the basis of the lives and residual values proposed by us a straight line depreciation fund operated on the basis of a settlement like the one sketched out in paragraph 68 would not have been more expensive than the sinking fund that was actually adopted The final result on the six years working would have been more or less what is now shown by the accounts but the Department would have the prospect of increasing benefits from the straight line system in future

74 We recommend accordingly that the Block Account and the depreciation fund account should be revised retrospectively from the 1st April 1925 on the basis suggested by us The only argument that can perhaps be urged against our proposal would seem to lie in the fact that while the Department will be required to pay interest at the rate of 3 3252 per cent in respect of capital outlay incurred up to 1916 17 inclusive the interest earned on the accumulations in the depreciation fund is at the rate current for the year This may be favourable to the Posts and Telegraphs Department and unfavourable to the general exchequer We consider however that such an objection would be based on a misapprehension of the nature of the two transactions The capital expenditure of the Department is represented by fixed assets of long life and was found directly or indirectly from perpetual loans at a low rate of interest There can be no question of returning those loans just as there can be no question of dismantling and withdrawing the fixed assets. The assets of the depreciation fund on the other hand are liquid assets which are utilised year after year by Government for financing their Ways and Means programme They are more mobile and can be reasonably expected to earn the same rate of interest as is paid by Government on its borrowings

75 An incidental advantage of the settlement worked out on the lines indicated by us in paragraph 68 would be the great simplification in all accounting relating to the depreciation fund Some of the directions in which this simplification could be effected are indicated below —

(a) At present the cost of the reconstruction of an asset has to be distributed between the depreciation fund and interest bearing advances Owing to the lack of reliable information as to the age of the individual asset on the date of reconstruction a broad assumption is made to the effect that the asset has lasted its expected life on the date of reconstruction The results of this assumption are not as definite as the formula would indicate because the life of any class of asset however homogeneous it be is an average figure and the actual date of reconstruction may be some years before or some years after the date of expiry of the average life Lastly, as the life of wasting assets as recommended by us may be as much as a hundred years the capital liability of the general exchequer will remain unliquidated for a very large number of years a state of affairs which in our opinion is not desirable

(b) As explained in paragraphs 65 and 66 two sinking funds will have to be maintained from 1st April 1925 for a very long time to come one for the assets borne at their depreciated values on 1st April 1925 and one for those l at

their original value. This would have been unsatisfactory enough if the former was an unchanging amount. As a matter of fact however as any money is spent on reconstruction either out of the depreciation fund or out of interest bearing advances its amount must be adjusted by deduction from first and addition to the second.

(c) The calculations on the annual depreciation and checks on the adequacy of the assets in the depreciation fund are undoubtedly very much simpler on the straight line plan than on the sinking fund method.

76. The disadvantages, some of which are enumerated in the previous paragraph, would all disappear if the straight line plan is adopted, as recommended by us, retrospectively from 1st April 1925, with a consequent saving in the matter of accounts both in executive offices which are responsible for preparing the estimates of works and in the accounts offices where the value accounts are consolidated and maintained.

CHAPTER IX

Receipts and Payments on account of Interest

A.—Preliminary Remarks

77 Interest on capital enters into a number of calculations of the cost of services rendered to or by the Posts and Telegraphs Department but this aspect of the question is dealt with only briefly at the end of this chapter which deals mainly with the more important matter of the interest on capital outlay and if the term may be used on the cash assets or liabilities of the Department *Under this category is to be included the* interest paid or received by the Department on the following amounts —

(i) the total amount at charge of capital account

(ii) the balance at credit of depreciation fund and

(iii) the accumulated loss or profit on the working of the Department after the accounts were commercialised

B.—Interest on Capital Outlay

78 The history of the decisions affecting the capital account has been given in an earlier chapter of this report and it is therefore sufficient here to recapitulate that the total amount now at charge of the capital account comprises the following items —

(a) depreciated value as on 1st April 1925 of assets constructed up to the 31st March 1924 ,

(b) original cost of the acquisition or construction of new assets after 1st April 1924

(c) interest bearing advances made after 1st April 1925 for the renewal and replacement of assets representing the utilisation of the arrears of depreciation

(d balance at charge of the stores and manufacture suspense accounts and

(e) a deduct item being the aggregate of receipts on capital account

79 Interest on outlay incurred up to 1916-17 is charged at a fixed rate of 3 3902 per cent from 1917 18 it is calculated at a rate fixed from year to year by the Government of India

Interest on the capital outlay of the Department was charged for the first time in the accounts for 1921 22 but the debits in that and the three succeeding years were limited to interest payable on the outlay on telegraphs not charged to revenue As stated in paragraph 21 it was decided in connection with the commercialisation of the accounts that interest should be charged on the total capital outlay of the Department *i e* irrespective of the source from which the money had been found whether from borrowed funds or from the cash balances or the revenue *surpluses* of the Government of India

80 The decision to charge interest on the entire capital outlay of the Department has been the subject of criticism in various quarters on the ground that in the past capital expenditure was found out of the revenue

surpluses of the Government of India, and that these surpluses of Government were partly built up by large surpluses surrendered by the Posts and Telegraphs Department. It has been claimed that the Department should now be exempted from the payment of interest on a large portion of its capital outlay. We have accordingly examined this claim and have discussed it with witnesses competent to express an authoritative opinion on the matter. Before proceeding to consider the two sides of the question and recording our own conclusions we should recall that prior to the commercialisation of the accounts the responsibility for meeting the losses on the working of the Posts and Telegraphs Department, both before and after the amalgamation of the two branches, lay entirely on the Government of India, and that in earlier years the Telegraph Department, and possibly also the Post Office, were run at considerable loss. Naturally, therefore, whenever there was a profit on the working of the Department the profit was appropriated to general revenues.

In chapter IV of this report we have indicated the nature of expenditure which was and is shown under the head "Capital Outlay charged to Revenue" in the Finance and Revenue Accounts of the Government of India. The fact of certain amounts appearing under this head does not, however, prove conclusively that the amount was actually found out of surplus revenues or cash balances. As regards the allegation that the capital outlay was found from surplus revenues of the Department we have already recorded our opinion, reached after an examination of the old accounts, that no reliance can be placed on any estimate of surpluses earned by the Department in the past based on the old accounts. To our minds, it is not inconceivable that the reconstruction of the accounts of those years on a commercial basis may give a wholly different result. Such a reconstruction is now impossible and a claim based solely on supposition cannot be admitted.

81. We are inclined to think that some of the objections raised to the charging of interest, are based on the practice followed in the accounts of certain commercial undertakings. As a matter of fact, the propriety of including interest has been the subject of a prolonged controversy in accounting circles in which eminent exponents of accounting theory and practice are found in opposite camps. The authorities opposed to the inclusion of interest (other than interest on debentures) have advanced the following grounds in support of their view :—

(*i*) interest is not an item of cost its inclusion in cost results in an inflation of inventory values and an anticipation of profits ;

(*ii*) interest is an anticipated expense and an item of this nature cannot therefore be included in "total cost", or taken into account in "cost finding";

(*iii*) the inclusion of interest introduces an unnecessary complication without any commensurate advantage, for instance, every revision of the rate of interest on a loan from bankers would require a revision of the cost formulæ.

(*iv*) interest is a return on capital and consequently it is profit on capital whether it be the capital of a sole trader, of a partnership, or of a company.

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D—Interest on accumulated profit or loss on the working of the Department

87 As stated at item (*vi*) of paragraph 21 the Posts and Telegraphs Department receives a rebate or pays a surcharge as the case may be in respect of interest on the net profit or loss on the working of the commercial branches of the Department as determined by the accounts To give effect to this decision the rebate or surcharge is calculated on the ascertained accumulated profit or loss and in practice it means that it is based for inclusion in the accounts of any one year, on the progressive result of working up to the end of the previous year Thus the amount to be included in the accounts for 1930 31 will be a surcharge at the rate applicable to capital outlay on a sum of Rs 95 14 984 which was the progressive loss on the working of the entire Department to the end of the year 1929 30 The loss on the working of the non commercial portion of the Wireless Branch of the Department is excluded when computing the amount of the surcharge

We have considered the equity of this decision and have come to the conclusion that it is both sound in principle and useful in practice It retains to the Department the benefits from any profit that it may earn and thus provides a continuous incentive for economical working

88 We have examined the method of exhibiting the charge for interest in the Profit and Loss account of the Department in the Finance and Revenue Accounts and find that the amount shown as ' interest on capital outlay ' includes the rebate or surcharge allowed to or recovered from the Department We consider that this method is not appropriate and that the entry should be made in such a way as to show separately the amount of interest on the capital at charge of the Department and that of the rebate or surcharge

89 We have a further suggestion to make As stated above the loss on the working of the non commercial portion of the Wireless Branch of the Department is excluded in calculating the progressive profit or loss on which rebate is granted or surcharge levied It is not unlikely that similar decisions may be taken in the future in respect of other activities of the Department It is therefore of some importance that the amounts on which interest is actually charged or credited to the Department should be shown clearly in the published accounts of the Government of India In our opinion, this object would be best gained by appending to the Profit and Loss account a subsidiary statement containing an analysis of the profit or loss on the working of each branch of the Department set out in such a fashion as to exhibit clearly how the amount in respect of which the Department incurred the liability for surcharge or earned the title to a rebate has been arrived at

E—Interest in Cost Calculations

90 In addition to the main items of interest dealt with in the preceding portion of this chapter interest enters into the calculations of the amount charged by or paid to the Department as remuneration for various services Our views about the method of including interest in these calculations are given in a subsequent chapter but there is one item which is more suitably dealt with at this place Railway Mail Service vehicles used for carrying mails are constructed in accordance with

arrangements made by Government. The broad principle of these arrangements, however, is that, if the capital cost of the vehicles is found by the Railway Department, the Posts and Telegraphs Department, has to pay the interest on the capital cost in addition to the charge for hauling the vehicles with their mails. We understand that the rates of interest charged to the Posts and Telegraphs Department on the capital cost of such vehicles, and the rate paid by the Railway Department to general revenues on their own capital account have not always been the same. It is difficult to institute a rigorous comparison in the time at our disposal, but we understand that the comparison attempted in the following table gives a fairly accurate idea :—

Interest charged to the Post Office.		Interest on Railway Capital Outlay.	
Period.	Rate.	Period.	Rate.
Up to June 1898 ..	4%	..	Fixed rates of 4 or 3¾ %.
From 1st July 1898	5½%	From 1906-07 to 1918-19.	Actual average rate for the year *on the mean non-specific debt.* The rates charged varied from 3·2964 to 3·500.
....	..	1919-20 ..	3·4076% on expenditure to end of 1916-17 and 5·9328.
From 1st April 1922	6½%	..	From 1920-21 the rate on expenditure to end of 1916-17 has remained constant at 3·252. The rate on subsequent expenditure has been as follows :—
Expenditure incurred after 3rd June 1922.	5½%	1920-21 ..	5·1979
		1921-22 ..	5·1038
		Subsequently	Varying rates not exceeding 5·6900.

It will be seen that sometimes the rate charged to the Posts and Telegraphs Department has been appreciably higher than the rate paid by State Railways on their own capital outlay. We are of the opinion that the two rates should be equal.

CHAPTER X

Pensions

91 Previous to the year 1923 24 actual payments of pensions to retired employees of the Commercial Departments of the Government of India were charged to general revenues In 1924 it was decided that with effect from the accounts for 1923 24 the amount of these payments should be shown under the appropriate heads in the accounts of the respective departments themselves The amounts actually charged in the Posts and Telegraphs accounts in the years 1923 24 and 1924 25 were Rs 32,51,608 and Rs 33,60,683, respectively

92 In connection with the commercialisation of the accounts, it was decided that the actual payments of Posts and Telegraphs pensions will be debited to general revenues, and that the Posts and Telegraphs Department will make, each year, a contribution based, not on actual payments during the year, but on the pensionary liability to be met on the retirement of employees then in service In the absence of and pending a reliable actuarial estimate of this liability, the annual contribution was fixed at Rs 50 lacs exclusive of extraordinary pensions and those granted under the provisions of the Workmen's Compensation Act This sum was adopted in the accounts for 1925 26, 1926 27, and 1927 28, as a round sum comprising roughly a fifty per cent increase on the actual pension payments of the Posts and Telegraphs Department in the year 1923 24 In view of the growth of expenditure upon departmental establishments, the amount was raised to Rs 58 lacs in the accounts for 1928 29 and Rs 60 lacs in those for 1929 30 An actuarial investigation was also started meanwhile, and its results became available early during the last financial year

93 The annual pensionary liability of the Department has been defined as the actuarial present value of the proportionate amount of the pensions ultimately payable to the existing employees which would be earned by them in any particular year The formula on which the Department is at present authorised to work is as follows —

> " The annual charge equal to the annual pensionary liability of the Department should be 8 2 per cent of the total pay and leave salary of the pensionable establishment excluding any special pay and allowances that do not count for pension "

It will be seen, that under the arrangement, Government undertake the liability for finding the pensions for all service rendered prior to 1st April 1925, without demanding any contribution They also undertake to find the money for all pensions that may be granted in respect of service rendered after that date in return for a contribution calculated on an actuarial basis

94 The large amount of the increase in the pension charges of the Department that has occurred as a result of the commercialisation has attracted criticism in some quarters, and it has been urged that the amount appearing in the annual Profit and Loss account of the Department should be limited to that of the actual payments of pensions made in the year to retired employees of the Department It is urged that

there is no danger of the Posts and Telegraphs Department either becoming bankrupt or ceasing to exist and that the Department is as much a part of the Government of India as other departments. Consequently it is held that there is no necessity to include in its annual accounts an estimated amount to cover its liability instead of the actual amounts paid to pensioners.

95. We have examined this argument and are convinced that it frustrates the whole principle of the commercialisation of accounts the object of which is to ascertain the true cost of the operations of the Department. The liability for pensions of employees is one which materialises a long time after the service which earns the pension is rendered ; and its true nature is consequently apt to be overlooked. Pension is of the nature of deferred pay and therefore an intrinsic part of the cost of establishment. It should accordingly be taken into account along with immediate payments for establishments when determining the cost of running the Department as a whole, or that of rendering a particular service. The same practice is followed in the commercial accounts of the British Post Office and we do not see any reason for recommending a reversion to the old practice of taking only actual payments into account.

96. Having accepted as correct the decision to include the estimated amout of the pensionary liability of the Department we investigated for ourselves the basis on which the formula of 8.2 per cent. given in paragraph 93 was fixed. The calculations had been made by the then Actuary to the Government of India and his successor appeared before us to give oral evidence and also furnished us with a memorandum describing the basis of the calculations. We also arranged to examine as a witness an Actuary with experience of life insurance and actuarial work who, before giving evidence, had a conference with the Government Actuary.

97. It has been stated to us that the Government Actuary defined the scope of the enquiries which concluded only during the last financial year as follows :—

> " The idea, I take it, is to charge the Posts and Telegraphs Department henceforward in each year the cost or, in other words, the actuarial present value of the proportionate amount of the pensions ultimately payable to the existing employees which would be earned by them in that year. This cost would be as a percentage of the actual annual pay of the pensionary establishment of the Department. The fact that no provision was made in past years would be ignored and no charge would now be made of the proportionate amount of present employees' pensions corresponding to past service ".

98. We understand that this definition was accepted as correct and steps were taken to collect the following information in respect of each class of pensionable officials :—

(*i*) Number in service ;

(*ii*) Scale of pay ; and

(*iii*) Pension rules.

It took a long time to collect this information and the Government Actuary agreed to work
the average ge at entry
service at retirement in
tion finally submitted to the Actuary about the end of 1928 did not contain these two last items in full and he had therefore to make such assumptions as he considered suitable The following table shows the groups under which the Government Actuary classified the entire staff of the Posts and Telegraphs Department and also some of the assumptions made in the calculations and the resultant pensionary percentages —

Staff groups	Average age (in years) of entry into pensionable service	Average length of service (in years) at retirement	Annual pensionary charge expressed as a *percentage* of the annual pay bill at $4\frac{1}{2}$ % per annum compound interest
(i) Inferior servants	20	32	2 3
(ii) Postmen and others in higher ranks who joined the Department as postmen	21	32	11 6
(iii) Telegraphists and others in	22	32	9 1
	23	32	9 2
who joined the Department as clerks			
(v) Gazetted officers	25	30	11 2
(vi) *All classes*			9 125

99 In addition to the assumptions tabulated above the Government Actuary had to make certain assumptions as to the average length of service at entry into various higher ranks of the non gazetted establishment On the basis of the assumptions the Actuary prepared hypothetical life and service tables applicable to the five groups of officials taking the same number in each group as that actually employed in the Department Allowance was made for death after retirement on pension The percentages shown in the table were all calculated on a $4\frac{1}{2}$ per cent interest basis It is understood that the Finance Department decided however that the rate of interest should be taken at 5 per cent instead A detailed recalculation on the 5 per cent basis was not made but a rough calculation indicated that the overall average of $9\frac{1}{8}$ per cent should be reduced to 8 2 per cent

100 During the course of our discussion it was discovered that a mistake had been made in the statistics supplied to the Government Actuary as regards the number of higher appointments to which men of the postmen group could expect promotion The departmental representatives and the Government Actuary both stated to us that the data supplied to the Government Actuary on which he had to make his calcula

tions were not very reliable. Our investigation of the matter convinces us that this is not an understatement of the case. Although certain information supplied recently by the Department to the Government Actuary bears out generally the appropriateness of the assumptions made by him in his calculations we feel that those assumptions still remain to be substantiated by more suitable and sufficient statistics. The comparative importance of such a verification of the assumptions is illustrated by the fact that the various factors entering into an actuarial calculation of pensionary liability arrange themselves in the following order based on the magnitude of their effect :—

(*i*) Length of service at retirement ;

(*ii*) Scale of salary ;

(*iii*) Rate of interest ; and

(*iv*) Mortality both during service and after retirement.

Partly because of the mistake in the information supplied to the Government Actuary and partly because of other considerations we decided that the matter requires further investigation to be undertaken in three different stages.

101. An immediate calculation was obviously required to rectify the mistake in the statistics relating to the promotion of postmen to higher classes. It was also considered that it would be more satisfactory to have detailed recalculations made on the basis of a 5 per cent. rate of interest. The Government Actuary undertook to make this calculation after verifying, as far as possible, the data used by him in consultation with the Department and we quote his report to us on the results of the revision :—

"The results given previously have now been found out to be wrong owing to the defective data supplied by the Department in respect of the postmen. The statements furnished by that Department showed that the number of selection appointments to which the postmen were eligible to rise was 11,968 whereas the correct number was 3,600. Had the latter figure been adopted previously, the results at 4½ per cent. and 5 per cent. rate of interest would have been as follows :—

Class of official.	Annual pensionary charge expressed as a percentage of the annual pay bill on the basis of—	
	4½% rate of interest.	5% rate of interest.
Inferior servants	2·288	1·992
Postmen	8·953	7·947
Telegraphists	9·145	8·093
Clerks	9·193	8·165
Gazetted Officers	11·162	9·943
All classes	8·424	7·465

102 The immediate revision described in the preceding paragraph does not in our opinion give a result which is fully reliable We are of the opinion that a further detailed investigation should be undertaken which can be completed within the next few months In consultation with the Government Actuary we have drawn up the following instructions to indicate the lines on which this revision should be undertaken —

I The entire staff of the Department should be divided into large groups and suitable sub groups on the basis of the rules of recruitment, scales of pay and conditions of promotion etc As an example the non gazetted establishment in the Postal Branch may be grouped as follows —

Group I —Inferior servants	32 000 men
Group II —Postman class (includes mail guards postmen village postmen etc)	32 000 men
Group III —Departmental Branch Postmasters class (includes also Overseers, Head Post men Reader Postmen and Sorter Postmen)	32 000 men
Group IV —Ministerial establishment—	
(*a*) Time scale	29 000 men
(*b*) Selection grade—(includes also Inspectors Head Clerks Head and Sub postmasters in the selection grade and clerks and others in the selection grade)	2 000 men

II The history of the services of a suitable number of men in the various classes should be tabulated in such a way as to enable the prospects of promotion from a lower to a higher grade being expressed numerically

(*a*) For instance Inferior servants (Group I) can be promoted to the postmen class (Group II) The history of the service of ten postmen at the bottom of the scale in each postal division should be collected and analysed As there are roughly between 150 and 200 postal divisions the analysis would cover the experience of between 1 500 and 2 000 men out of a total establishment of 32 000 men and would enable statistics being prepared both for the average probability, and the average age at the time of promotion to the Postman class

(*b*) Again Group III consists of Departmental Branch Post masters Overseers Head Postmen etc and constitutes a promotion group for men of the Postman class The necessary statistics should be collected by analysing the history of services of five men of this group at the bottom of the time scale in each postal division

(*c*) Promotions from Group III to Group IV are very few and may be neglected Promotions from sub group (*a*) to sub-group (*b*) of Group IV is an important factor in the determination of the pensionary liability The satistics should be obtained by analysing the history of services of five men at the bottom of the scale of sub group II comprising Inspectors, Head Clerks etc , in each division

III. In the case of gazetted officers, whose total number in the Department is not large, we are of the opinion that the statistics should be collected to cover as large an experience as possible.

IV. The statistics of retirement should cover the following information :—

(*a*) Date of birth.

(*b*) Age of entering into service qualifying for pension, inferior or superior.

(*c*) Length of service from the date shown against the previous item, at the time of retirement.

(*d*) Nature of pension granted—whether invalid, superannuation or retiring.

(*e*) The group or sub-group, as determined in connection with item (I) above, in which the officer was substantive at the time of retirement.

V. To secure accurate results it is necessary that suitable forms of service cards should be prepared to meet the varying requirements of each group. These should be filled up from the records of service and then furnished to the Government Actuary for his investigation. At our request, the Government Actuary kindly drew up service cards for the various groups and these are appended as Appendix 5 to this report.

103. The method outlined by us in the preceding paragraphs has been designed to furnish fairly reliable results in the minimum of time, but the continued accuracy and reliability of the percentages must be checked from time to time. In order that this may be done it is necessary, so we are advised, to maintain a hypothetical Pension Fund account as from 1st April 1925. The account should be started with an initial opening balance equal to, the sum of the capitalised value of the pensions which were being paid on 1st April 1925 to the retired employees of the Posts and Telegraphs Department, and of that of the proportion of pensions which had been earned by the staff employed on 1st April 1925 in respect of their service to that date. To this Fund should be added year by year amounts calculated on a proper actuarial basis to cover the pension earned by service in each of those years and also the interest earned on the accumulations in the Fund. The actual payment of pensions would be charged to the Fund ; and actuarial investigations at intervals of 5 to 7 years could then be made to ascertain whether there has been a deficit or a surplus as a result of the transactions since the last valuation.

104. To maintain this account on the lines indicated in the preceding paragraph it is necessary that life and service tables should be maintained in respect of all the employees of the Department, so that the necessary actuarial calculations may be made whenever required. It is also necessary that reliable information should be available as to the amounts of actual payment of pensions in each year. We addressed the Auditor General in regard to the latter necessity. He has, in reply, pointed out certain difficulties in the matter. For instance, the correct allocation of the actual payment of pensions will involve an examination of the details of service rendered by all existing pensioners. The matter is also complicated by the fact that under the existing arrangements with local Governments all pensions, including those of Posts and Telegraphs employees,

sanctioned before 1st April 1921 and paid in India, are borne by the provinces by whom they were paid at the time As regards the future, we quote the Auditor General's opinion *in extenso* —

"If, however, the idea of the Committee is merely to ascertain very approximately the actual amounts of pensions paid in each year to retired employees of the Posts and Telegraphs Department, it may be possible though not without some extra labour, to arrange for the necessary figures being collected by the Accounting Officers in India and in England Under this arrangement the pensions of all those who were serving in the Posts and Telegraphs Department at the time of their retirement may be taken as chargeable to that Department and as a set off no portion of the pension of any officer who retired from other departments should be taken as chargeable to the Posts and Telegraphs Department even though a portion of his service was spent in the latter Department The figures calculated under this arrangement will not however, give a precise idea of the total amount of pensions actually debitable to the Commercial Accounts of the Posts and Telegraphs Department"

105 The difficulties in the way of determining the actual payments, due to a portion being paid by Provincial Governments will tend to disappear in a few years' time as the pensioners who retired before 1st April 1921 die The difficulty in determining the incidence between the Posts and Telegraphs Department and other departments will continue to exist but we do not think that it will prove insuperable

106 The other requirement for the maintenance of the account consists of reliable statistics of past experience and we consider that arrangement should be made if the expense involved is not considerable for the maintenance of proper service cards of all employees of the Posts and Telegraphs Department

107 We now proceed to examine the appropriateness of the amounts charged on account of pensionary liability to the Posts and Telegraphs Department since 1st April 1925 We consider that the percentages now determined by the Actuary as the result of the preliminary investigation should be applied retrospectively to determine the total amount that the Department should have paid on this account In making this calculation the proper way is to apply the particular percentage rate appropriate to each of the five groups mentioned in paragraph 98 to the annual pensionable pay bill of the staff included in that group Theoretically such a calculation should yield a more accurate result than the application of the over all average rate to the pay bill of the entire pensionary establishment because the over all average is a weighted average which will yield accurate results only so long as the relative numbers of the employees in the different groups continue unchanged

108 We have calculated the amounts of the pensionary contributions both on the basis of the separate average rates as recommended by us in the preceding paragraph and on the over all averge rate as prescribed by Government, and the results are compared in the subjoined table For purposes of comparison we have also shown the amounts actually contributed by the Posts and Telegraphs Department since 1925 26

Pensionary Contributions.

Year. 1	Total amount of contribution based on group percentage rates proposed by Government Actuary. 2	Total amount of contribution based on over-all average percentage rate (7·465) proposed by Government Actuary. 3	Amount actually contributed. 4
	Rs.	Rs.	Rs.
1925-26	48,63,807	45,78,908	50,00,000
1926-27	50,35,140	47,44,749	50,00,000
1927-28	52,62,532	49,57,520	50,00,000
1928-29	55,88,300	52,76,165	58,00,000
1929-30	58,35,431	55,17,689	60,00,000
Total ..	2,65,85,210	2,50,75,031	2,68,00,000
R. E. 1930-31	60,11,862	56,85,157	61,93,000
B. E. 1931-32	61,32,101	58,01,308	63,86,000
Total ..	1,21,43,963	1,14,86,465	1,25,79,000
Grand Total ..	3,87,29,173	3,65,61,496	3,93,79,000

—	Difference between columns (2) and (4).	Difference between columns (3) and (4).
	Rs.	Rs.
1925-26 to 1929-30	2,14,790	17,24,969
1930-31 R. E.	1,81,138	5,07,843
1931-32 B. E.	2,53,899	5,84,692

109. It will be seen that for almost every year the amount calculated at the over-all rate is lower than that on the separate rates. This unexpected result appears to be due to the fact that in the Posts and Telegraphs Department the gazetted group, the factor for which is the highest, includes a large number of officers whose conditions of service are entirely dissimilar. We find from a reference to the annual Administration Reports that the number of gazetted officers of the Central and All-India Services, Class I, in the Post and Telegraphs Department is small. In addition to this, however, there is a large number of gazetted officers who are on comparatively much smaller rates of pay and are subject to pension rules which are not as favourable as those applicable to the

officers of the All India and Central Services, Class I We are inclined to think therefore, that there should be separate rates of contribution for the two classes of gazetted officers This can be attended to, if necessary, in the next actuarial investigation recommended by us in para graph 102 Until then as already decided by Government the over all average rate should be adopted On this basis the contributions actually made by the Department in the five years 1925 26 to 1929 30 exceed the amount required on an actuarial basis by Rs 17,24 969 We recommend that the over charge should be adjusted forthwith, but would point out that really the credit to the Posts and Telegraphs should be larger The contribution rate has been applied to the entire amounts shown in the accounts under the detailed head " pay " which includes certain emolu ments which are not always taken into account when determining the amount of pension, *e g*, pay of substitutes, officiating pay, etc

the other hand, the stamps are unified and, we understand, that the apportionment between the Post Office and the Inland Revenue Department has been the matter of a controversy which was recently referred to the Actuary to the British Government. As a result of his recommendations, the British Post Office now makes over to the Inland Revenue Department 80 per cent. of the total value of all two-penny stamps issued, and the matter is to be reviewed in 1932. At the other extreme, we find that in the Union of South Africa, although the stamps are unified and are used both for postage and revenue purposes the gross sale-proceeds are retained by the postal administration. A remark to this effect is made in the annual Administration Report but apparently no attempt is made to ascertain or indicate the proportion creditable to the Revenue Department.

116. The nature of the case is such that no method of apportionment can be suggested without being open to challenge as being inappropriate. The problem in India, is, to our minds, even more difficult than in England. In the latter country the initial and most common rate of stamp duty for which unified stamps are used is two pence, while the initial postage rate for letters and postcards is one and a half pence. It was thus possible for the Actuary's Department in England to evolve the formula described in the preceding paragraph. In India, on the other hand, the initial rate for stamp duty and the initial letter rate are the same, *viz.*, one anna.

117. Certain important criticisms of the methods and calculations adopted hitherto suggest themselves. In the first place, the increase in the amount payable to the Civil Department is calculated on the basis of the increase in revenue from general stamps, without any reference to the fluctuations in the sale proceeds of postage stamps. We understand that the possibility of devising a method of calculation based on the sales of postage stamps was considered at one time but was given up as likely to yield unreliable results, the proportion of the Civil Department's share of the gross sales being small.

118. Another criticism that suggests itself is that in the calculations no allowance has been made for the remission of stamp duty on cheques and bills of exchange sanctioned in 1927. The second method by which the assignments are calculated is such that a fall in the revenue of a Province derived jointly from the hypothetical sale of the one anna receipt stamp and from one anna coloured impressions has to be made good by increasing the assignments and the entire amount of these is found from postal revenue. As the remission of the duty on cheques and bills of exchange must have resulted in a diminution of the gross sales of the one anna unified stamp and in a much larger diminution in the revenue from one anna coloured impressions, postal revenues have to bear not only the actual diminution in the gross sales of the one anna, unified stamps, but also to make good to the Provincial Governments the fall in the revenue from the one anna coloured impressions. We do not know if the Government of India are committed to make good to the provinces the fall in revenue from the remission of the duty on cheques and bills of exchange but, be that as it may, there appears to be no justification for calling upon the Posts and Telegraphs Department to make good to the provinces this fall in revenue. We understand that the diminution in revenue from this remission was estimated at Rs. 7 lacs in 1929, and we consider that this amount must be taken into the calculations.

119 The fall in the revenue from one anna coloured impressions is shown in the following table —

Province	Average annual revenue for the triennium.		
	1902 05	1919 22	1926 29
	Rs	Rs	Rs
Madras	31 911	79 828	41 000
Bombay	59 246	3 30 000	1 18 000
Bengal	97 782	2 84 417	1 54 000
United Provinces	14 134	36 694	20,269
Punjab	22 010	49 296	*
Burma	16 775	59 225	*
Bihar and Orissa	1 413	3 209	1 496
Central Provinces		3 220	3 420
Assam		142	564

*Information not available

Seeing that the figures in the last column of the table relate to the years 1926 29 *i e*, before the present economic depression became most acute it seems indicated that the bulk of the decrease of revenue from coloured impressions is due to the remission of the duty on cheques and bills of exchange This conclusion is further strengthened by certain figures of the revenue from instruments impressed or denoted with a stamp duty of one anna in the Madras Presidency in the ten years ending 1921 22 According to these figures out of a total revenue for the ten years of Rs 5 98 102 2-0 Rs 5 11 163 8 0 was contributed by the duty on cheques and Rs 32 954 8 0 by the duty on bills of exchange It is not possible for us to attempt an estimate of the amount of the reduction in the assignment from postal revenues on this account but that it should be fairly appreciable is indicated by what is stated in the succeeding paragraph

120 As stated in paragraph 112 two methods of calculation have been adopted and the assignment to each province is fixed at the mean of the two results The second formula is

$$\frac{(\;+l)}{100} \times \left\{ (z-i-c-a)\;\frac{x}{-y} - (z-i-c-a) - c \right\}$$

where l = arbitrary percentage to cover increases in stamp duty sanctioned in 1923 (para 112)

z = average annual revenue (1926 29) from general stamps including assignment and coloured impressions

i = average annual revenue (1926 29) from increased provincial duties

c = average annual revenue (1926 29) from coloured impressions

a = current assignment

x = average annual revenue from general stamp 1902 05 including revenue from one anr one anna coloured impressions and

y = average annual revenue from one anna receipt stamps and coloured impressions in 1902-05.

The formula can be resolved as follows :—

$$\frac{100+k}{100} \times \left\{ (z\text{-}i\text{-}c\text{-}a)\left(\frac{x}{x-y} - 1\right) - c \right\}$$

$$= \frac{100+k}{100} \times \left\{ (z\text{-}i\text{-}c\text{-}a)\frac{y}{x-y} - c \right\}$$

It will be seen that, as c increases the assignment decreases, and *vice versa*. The amount of this decrease or increase is :

$$\tfrac{1}{2} \times \frac{100+k}{100} \left\{ \frac{(c_1-c_2)y}{x-y} + (c_1 - c_2) \right\}$$

$$= \frac{100+k}{200} \left\{ \frac{y}{x-y} + 1 \right\} \left\{ c_1 - c_2 \right\}$$

$$= \frac{100+k}{200} \times \frac{x}{x-y}(c_1-c_2)$$

Where c_1 and c_2 represent the revenue from coloured impressions in any two years respectively.

As the variables of the formula vary from province to province a separate calculation will have to be made in respect of each and the sum of these results will give the total decrease in the assignment from postal revenues. It is to be noted that as the remission of duty on cheques and bills of exchange was made from 1st July 1927. while 'x' and 'y' relate to the years 1926-29 the calculation made on the basis of the above formula will not represent the true effect of the remission.

121. To test the fairness of the present allocation we addressed the Chambers of Commerce to help us with figures of the comparative use. by their members, of postage stamps for postal (and telegraph) purposes on the one hand and revenue purposes on the other. The statistics supplied by them indicate that roughly the face value of stamps used for revenue purposes is between one-sixth and one-seventh of the face value of stamps purchased. The proportion of stamps used by large business houses and firms for revenue purposes must obviously be the least favourable to the Posts and Telegraphs Department. On the other hand, the bulk of stamps sold by the Department is used by the average literate citizen whose requirements for revenue stamps are extremely small. Again, the ratio of the value of stamps used for revenue purposes to the gross sales of ordinary stamps and postal stationery, will be smaller than that indicated by these statistics, as these commercial concerns use very little embossed stationery.

122. Lastly, we understand that the amount handed over by the British Post Office to the Inland Revenue Department as the latter's share of the sales of unified stamps is only 1|20th of the gross sales of stamps and stationery. In Great Britain, the unit of stamp duty for which unified stamps are used is two pence while the main letter rate is one pence and a half. In India, on the other hand, the main letter rate and the main rate for denoting stamp duty are the same, *viz.*, one anna. Other things

being equal therefore, the ratio between the assignment to the Civil Department and the gross sale of postage stamps and stationery must be very much less

123 Taking all the factors into consideration we are of the opinion that the present proportion whereby more than 1/15th of the cost of postage stamps and postal stationery is made over to the Civil Department is considerably too high and unfair to the Posts and Telegraphs Department

124 It is difficult however to suggest a method of distributing the gross sales of postal stamps between postal revenues and the Civil Department which would be equally fair to either The difficulty of the problem is best illustrated by the practice in South Africa alluded to earlier Our own examination of the matter and of the statistics collected by us leads us to the conclusion that no mathematical or statistical method of computing the respective shares will command the confidence of all parties We consider therefore that the only way to obtain a fair and reliable basis on which to make a distribution in future years is to introduce separate revenue stamps for a limited period of say 3 years and then to revert to the use of unified stamps The ratio found to subsist between the sales of the separate revenue stamps and those of the postage stamps can then be adopted as the basis for distribution in the future We realise that the proposal might inconvenience the public to a certain extent we therefore suggest that the separation should be a temporary measure In this connection we would suggest that as in the United States of America the Posts and Telegraphs Department should be required to sell these separate revenue stamps at all its offices

CHAPTER XII.

Press Traffic.

125. The rates for Inland Press telegrams introduced from 1st January 1882, were as shown below :—

Class.	Unit number of words.	Unit rate.	Each additional 4 words.	Address.
		Rs. as.	Rs. as.	
Urgent	32	2 0	0 4	Free.
Ordinary	32	1 0	0 2	Do.
Deferred	32	0 8	0 1	Do.

A reorganisation of the tariff was effected in 1905, to give effect to the desire of Government for cheapening information for the benefit of the reading public and the smaller newspapers. Two revisions were effected in the year 1905, and the rates levied at present, which are given in the next paragraph, are the same as those introduced from November 1905 except that the telegrams were then classed as "deferred" or "ordinary", instead of being styled "ordinary" or "express" as at present.

126. The existing rates for Inland 'Private' and Press telegrams compare as follows :—

For Inland private telegrams.

Class.	Unit number of words.	Unit rate.	Additional words.	Address.
			Each word	
		Rs. as.	Rs. as.	
Express	12	1 8	0 2	Charged for
Ordinary	12	0 12	0 1	do.

For Inland Press telegrams.

			For each 6 words.	
Express	48	1 0	0 2	Free.
Ordinary	48	0 8	0 1	do.

It will be seen that the Inland Press rates are one-sixth of the inland Private rates for both the express and ordinary classes. In addition, there is another special concession to the Press in that, inland multiple press messages, addressed to several places, are charged for as a single message whether all the addresses are in the same town or not, a copying fee of only four annas per 100 chargeable words, *plus* 4 annas for the excess, being charged for each destination after the first. In the case of private multiple telegrams, the concession of being charged only a

copying fee, for every telegram after the first, is limited to messages delivered at two or more addresses in the same free delivery area of a telegraph office

127 The reasons for which these concessional rates have been sanctioned to the Press fall outside our terms of reference, as they constitute questions of the general policy of the Government of India The concessions are not unusual, being granted on one scale or another in most civilized countries, and the grant of similar concessions on foreign press telegrams is also provided for in the Conventions and Treaties drawn up at the International Telegraph Conventions We note, however, that according to the information at our disposal there is at least one important country, Germany, where no concession whatever seems to be granted on Inland Press telegrams

128 We are concerned, by the terms of our reference, with the effect of this concession on the results of the commercial working of the Department as pictured in the accounts The loss accruing to the Department from its Press traffic formed the subject of comment by the Accountant General, Posts and Telegraphs, in his Appropriation Report on the accounts of the Posts and Telegraphs Department for the year 1923 24, and his estimates of the loss under varying conditions were as follows —

"(a) if no concession is given to Press telegrams and if they are charged for as private telegrams, the Department would have received an additional revenue of a little over Rs 50 lacs,

(b) if the concessional rate for Press telegrams is removed and the multiple Press concession remains, the additional revenue would amount to about Rs 24 lacs,

(c) if the concessional rate remains, and the multiple message concession is removed a rough estimate of the increase in revenue is Rs 4 lacs,

(d) if the rates for Press telegrams are increased in proportion to the increase in rates effected for private telegrams since 1905, and the multiple message concession is allowed to remain, the increased revenue would amount to about Rs 10 lacs,

(e) if the rates for Press telegrams are increased in proportion to the increase in rates effected for private telegrams since 1905 and if the multiple concession is withdrawn, the revenue would be increased by something like Rs 20 lacs"

The number of Press telegrams dealt with during 1923 24 was 445,320 This number increased to 505,450 during 1929 30 and the estimated loss referred to above will now be correspondingly increased

129 We have examined the estimates of the Accountant-General We do not think that the difference between the amount actually recovered, and that recoverable at the rates applying to public traffic, is a true measure of the loss incurred by the Department, for, an enhancement sufficient to raise the Press traffic rates to the level of those chargeable on ordinary traffic must inevitably reduce the volume of traffic We consider that a truer measure of the loss is the saving that could be effected if no Press traffic had to be handled, and, at our request, the Director

General of Posts and Telegraphs, has kindly prepared an estimate of this amount, based on the statistics for 1929-30. His estimate is summarised below :—

Number of inland Press telegrams	505,450.
Corresponding number of signalling operations ..	505,450 × 2.86 × 3 × 4.72 = 2,04,69,511.

N.B.—These factors are conversion factors meant to allow for the length of Press messages and for multiple telegrams, and must be applied to determine the actual amount of work involved in the disposal of this traffic.

Amount of saving if the traffic is not handled.

	Rs.
On pay of Telegraph Masters, Operative telegraphists and clerks including leave reserve, etc. ..	16,07,000
Pensionary charges at 8 per cent. of pay	1,28,000
Delivery charges	50,000
Engineering charges	8,92,000
Audit charges	21,000
Total saving ..	26,98,000
Deduct receipts from Inland Press messages ..	5,45,000
Net saving. ..	21,53,000 per annum.

130. It will be readily admitted, we trust, that a private telegraph system, like the one operating in the United States of America, would grant only such concessions on its press traffic, as it could afford to meet from the profit it derived from its other traffic. From this standpoint, the following statement comparing the proportions between the amount of the revenue from, and the amount of expenditure on, Press and Private telegrams, in India and in Great Britain, during the year 1929-30 is interesting and instructive :—

—	Inland Press.		Private.	
	Percentage of gross income on cost.	Percentage of loss on cost.	Percentage of gross income on cost.	Percentage of loss on cost.
Great Britain	31·50	68·50	75·00	25·00
India	20·20	79·80	91·48	8·52

Speaking with the reserve that is necessary when dealing with statistics relating to two different countries and prepared on two different systems, the figures do indicate that the concession granted to the Press in India, is on a larger scale than that granted in Great Britain In the latter country the loss on Press traffic is only 43 5 per cent of the gross working cost, higher than that on private traffic, while in India the loss is 71 3 per cent higher than that incurred in respect of private traffic

131 We have also examined the possibility of reducing the loss, by providing differential rates as is the practice in Great Britain for day and night press traffic We have come to the conclusion however, that such an arrangement will not bring about any economy, and may possibly lead to increase in expenditure

132 After considering the question in all its aspects, we are of the opinion that because the Posts and Telegraphs Department is not at liberty to levy the rates which would be justified on principles of commercial accountancy or of traffic rating, it is entitled to be reimbursed the loss it incurs on its Press traffic, calculated as indicated in paragraph 129 In case it is found impossible to arrange for an actual credit to the Department, by debit to some other head of account, it should be arranged that this loss should be exhibited separately in a subsidiary statement analysing the profit and loss on the working of each branch, and that its amount should be excluded when determining the amount of surcharge or rebate, payable by or to the Department, on the progressive loss or profit on its working

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CHAPTER XIII.

Concessional Rates for Foreign State Telegrams.

133. Telegrams on Government business sent within Indian limits are charged for at the same rates as are payable by private persons ; but "Foreign" telegrams on the business of the Imperial, Indian, Dominion and British Colonial Governments are charged for at half the rates leviable from the public for private foreign telegrams. This concession is granted jointly by all the telegraph administrations over which the telegrams are transmitted, *viz.*, the British. the Dominion and the Colonial Government, the Cable Companies, the Indian Radio Telegraph Company and the Indian Posts and Telegraphs Department.

134. The concession of half rates granted on the Indian Telegraph system applies both to telegrams originating or ending in India, and to those passing over Indian wires on their way between two foreign systems. The total charge for private "ordinary" telegrams to Great Britain and Europe generally is, at present, Rupee one a word *via* the Eastern Telegraph Company and annas twelve a word *via* Indian Radio Telegraph Company. The corresponding charges on State telegrams are eight annas and six annas. The charge per word for a State telegram is apportioned between the Telegraph Administrations concerned in the following manner :—

	Via Eastern	*Via I. R. T.*
	fr.	fr.
Indian terminal charge	.115	.115
British terminal charge	.075	.075
Share of the Company	.710	.510
Total ..	.900 or *(8 as.)	.700 or *(6 as.)

*Note.—The exchange rate between the gold franc, which is the money unit in international telegraph accounts, is fixed at present at Fr. 1 = .54 Rs.

135. The reduction by one-half of the Indian terminal charge, *i.e.*, the Indian share of the charges on telegrams originating or ending in India, was introduced with effect from 1st August 1905, in the case of messages exchanged with Europe and transiting Europe, Aden and Africa ; and with effect from the 1st July 1906 in all other cases.

The similar reduction in the 'transit' charge, *i.e.*, the Indian share of the charge on telegrams passing over Indian wires on their way from one foreign system to another, was made with effect from the 1st January 1907.

When the concessions were granted originally, Government authorised the Indian Posts and Telegraphs Department to take credit, *pro forma*,

for the difference between the charges at public rates and those at the concessional rate ... Administration Reports Th ... or 1923 24 was Rs 78 686 ... 'commercialisation' was that only real credits should be included in the accounts The practice of showing this item as a credit was therefore, discontinued

136 We have ascertained that on the foreign State telegrams received in and sent from India, the loss of revenue resulting from the application of half the Indian 'terminal' rate was approximately as follows —

Year	*Rs*
1926 27	56 271
1927 28	59 887
1928 29	71 095

The average annual loss is thus Rs 62,400 Similarly, the average loss from the surrender of half the Indian 'transit' charge on British and Colonial Government messages is Rs 8 544 a year

We have also been furnished with the following statistical estimate of the loss

For the month of April 1930, the number of, and India's share of the charges on, such concessional messages were —

	No	*Value* *Rs*
Originating in India	1,466	5,087
Terminating in India	1 330	1,895
Transiting India	367	654

If the concession is abolished the annual gain to the Department would thus be—

Rs

61,044 on messages originating in India.

22 740 on messages terminating in India

7,848 on messages transiting India

91,632

The greater part of the gain to the revenues of the Department would be at the expense of Indian revenues and the losers would be—

(i) the Departments of the Government of India, their subordinate and attached offices, and local Governments and Administrations as regards outward messages from India,

(ii) the India Office and the High Commissioner for the inward messages received in India

137. We have considered the difficulties arising from the fact that the concession has been granted jointly by a number of parties. As regards the cable and radio companies, we would point out that they are commercial concerns working for profit, that they charge half rates for State traffic in virtue of the provisions of their agreements with the State, and that this concession is part of the price they pay to obtain the landing or operating rights. On the other hand, the Indian Posts and Telegraphs Department does not work for a profit and the levy of half terminal and transit rates on traffic which costs the Department just as much to handle as ordinary traffic represents a dead loss. There can thus be no question of the companies withdrawing the concession. The British Post Office can, however, follow up the increase in the Indian shares by a corresponding increase in the British shares from .075 to .15 franc. If it does, the further additional cost to Indian revenues as a whole would be about Rs. 33.000 a year, and this amount will go to the British Post Office.

NOTE.—For the calculations made in this paragraph it has been estimated that 90 per cent. of the foreign state telegrams sent from India are to Great Britain, and that 33 per cent. of the state messages received in India are from the High Commissioner's office the expenditure in which is debited to Indian revenues.

138. We appreciate that the position involves factors which may lead to complications if the Indian shares of the tariff are raised to the normal level. At the same time there does not appear to be sufficient reason for depriving a commercial department of revenue admittedly due to it. Having considered the matter in all its aspects, we are of the opinion that the difference between the normal (public) and concessional terminal charges on foreign telegrams on state business, originating from or terminating in India, should be reimbursed to the Department through an annual adjustment in the accounts. Whether the Central Government should recover from the Provincial Governments the shares proper to them is a matter for the former to decide. The aggregate amount of credit to the Department, and the shares allocable to Provincial Governments and the Departments of the Central Government, should be based on the results of an actual count of the traffic for two specific periods of two weeks each, carried out each year along with the census which is taken by the Telegraph Check Office for determining the telegraph share of the sales of stamps. We make no recommendation in respect of messages transiting India, as the amount involved is small, and the matter is not free from complication.

CHAPTER XIV.

Concessions to Indian States

139 The Indian Posts and Telegraphs Department makes a grant, free of charge, of service postage stamps to certain Indian States which are in postal unity with the Department In the case of a few other States in postal unity, the Department has undertaken to carry free of charge, within the territories of the State, correspondence and postal articles sent by State officials on the business of the State

140 This arrangement has been the subject of discussion in the Public Accounts Committee on more than one occasion, and they made the following recommendation in para 18 (4) of their report dated the 22nd July 1930, on the Appropriation Accounts of 1928 29 —

> "We notice that not much progress has been made in the disposal of questions relating to adjustments between the Posts and Telegraphs and other Departments We desire to press the recommendation made by our predecessors last year that the settlement of the items should be expedited, as meanwhile the true commercial results of the working of the Department cannot be ascertained In particular, we desire that the question of the free grant of postage stamps to Indian States should be examined in order to see whether the Department should not get a credit for the amount in view of the commercialisation of the accounts"

141 The relations between the Indian Posts and Telegraphs Department and Indian States came under the examination of the Indian States Committee, 1928 29 and we subjoin extracts from their report so far as they are relevant to our examination of the same problem

> "*Paragraph 97.*—The efficiency and security of the postal arrangements of India are matters of Imperial concern, in which the public in British India and the States are equally interested The services of the Imperial post office are enjoyed by the Indian States in common with the rest of the country Fifteen states have their own postal departments and are outside postal unity Five of these states have conventions with the Imperial post office and work in co operation with it In the other ten states the greater part of the correspondence within the state is carried by the local post offices while branches of the Imperial post office exist at most important places and carry correspondence across the state frontiers In most of the convention states, Imperial post offices exist only on territory which is British for purposes of jurisdiction such as railway stations, the residency area, etc The state postage stamps of the five convention states are valid for correspondence to any part of India, but not overseas, while the stamps of the other ten states are not valid anywhere outside their respective states The existing arrangements work well and it would not be in the interests of the public in either British India or the States

to alter them. We do not see our way to recommend an extension of the convention system as desired by certain states. In the five convention states no questions arise that cannot be settled in the ordinary course as at present. In the ten states where the British and State postal systems exist side by side questions may arise as to the opening of new post offices. This is at present a matter of joint discussion and we recommend no change."

* * * * * *

"*Paragraph 101.*—A claim is also advanced that state correspondence should be carried free within the state or that a liberal allowance of service stamps should be allotted to the states for this purpose. Allowances of service stamps are given in certain cases on no apparent principle. We recommend a settlement of this question once for all on definite principles."

142. Our own examination of the documents placed at our disposal leads us to endorse the view of the Butler Committee that the grants of service stamps have been made on no general principle. Broadly speaking, however, the concessions have been made in most cases to attain throughout India a unified postal system, which would conduce to the general convenience of the public, and the ultimate advantage of the Department. We are *not*, therefore, in a position to recommend, immediately, either the stoppage of these concessions or the allocation of the cost thereof to any other department of Government. Moreover, since the Round Table Conference has recommended that Posts and Telegraphs should form a federal subject, the question of concessions to Indian States will be discussed fully in the immediate future. In the circumstances, we prefer not to express any definite opinion on the general principle involved in this matter, but we suggest that no further concessions should be granted, at the expense of the Department, until the constitutional issues have been settled.

143. We would, however, like to draw attention to one aspect of the matter which seems to have escaped attention in the past. Most, if not all, of these grants were made in connection with postal operations and the relations between the Department and the states in the matter of telegraph and telephone communications are governed by an entirely different set of principles. The service postage stamps which are given free of charge to the states should not, in our opinion, be available for paying charges on telegrams, but from the evidence before us we are clearly of the opinion that as a matter of fact some portion of these grants is being used for this purpose. We recommend that suitable steps should be taken, say by means of a special overprint, to prevent the use of these stamps for paying charges on telegrams.

CHAPTER XV.

Departmental *versus* Combined Telegraph Offices

144. The Indian Posts and Telegraphs Department deals with its telegraph traffic in two kinds of offices called Departmental Telegraph Offices and Combined Post and Telegraph Offices Departmental Telegraph Offices are manned by telegraphists who may belong either to the General or to the Station Service, and are under the control of a Telegraph Master On the other hand, the telegraph branch of a Combined Office is staffed by postal clerks who have been trained in signalling and who work under the control of the Postmaster

Departmental telegraph offices perform only telegraph work and are opened for specific reasons which may be technical, military or political in nature From the standpoint of the Posts and Telegraphs Department, a departmental telegraph office is opened only when it is found that efficient telegraph service cannot be rendered by postal signallers in a combined office

145 The average monthly pay of a postal clerk is Rs 101, that of a Station Service Telegraphist is Rs 123 and that of a General Service Telegraphist is Rs 175

Thus, there is a difference, (*i*) of Rs 22 a month or Rs 264 a year between the pay of a Postal Signaller and that of a Station Service Telegraphist, and (*ii*) of Rs 74 a month or Rs 888 a year, between the pay of a Postal Signaller and that of the General Service Telegraphist In addition to his pay, a General Service Telegraphist is entitled to free quarters or to house rent allowance of approximately Rs 35 a month in lieu of free quarters

146 In para 97 of their report, the Posts and Telegraphs Department Committee of 1924-25 (Ryan Committee) recommended that the policy of converting Departmental Telegraph Offices into combined offices should be vigorously and consistently pursued

The Committee also observed, in para 94 of their report, that if for purely military or political reasons the Indian Posts and Telegraphs Department "is compelled to provide an office with a more expensive establishment than is justified by departmental requirements there seems no equitable reason why those departments whose demands are responsible for the extra expenditure should not be required to make an equivalent contribution in order to cover it"

147 We find that the Department has consistently pursued the policy of the conversion of departmental into combined offices as is shown by the following statistics —

Year	Number of Combined Offices	Number of Departmental Offices.
1924 25	3,488	154
1930-31	4,234	81

Of the eighty-one departmental offices which exist at present, we understand. that only 62 are required for departmental reasons.

148. An idea of the additional cost involved by the maintenance of departmental offices where combined offices would have sufficed, can be gathered from paragraph 92 of the Ryan Committee's Report wherein it is stated that in 1923-24 the conversion of twelve small offices from departmental to combined yielded an annual saving of Rs. 34,000 approximately. The conversion of nineteen offices should therefore lead, on the 1923-24 basis, to a saving of roughly Rs. 54,000 per year.

149. We fully endorse the view of the Ryan Committee that a commercial department like the Posts and Telegraphs Department should not be required, for extra-departmental reasons, to employ an agency which is unnecessarily expensive, without being reimbursed the additional expenditure incurred by it. If it is found impossible to convert these nineteen offices into combined offices, the only deduction that we can draw at present is that these nineteen offices are being maintained for the needs or convenience of some other department of Government. We, therefore, recommend that a credit for the extra expenditure caused by keeping them as Departmental Telegraph Offices should be given forthwith to the accounts of the Posts and Telegraphs Department, by making recovery from the department concerned.

CHAPTER XVI

General Service and Station Service Telegraphists

150 Closely connected with the question of Departmental Telegraph Offices *versus* Combined Post and Telegraph Offices, is that of the employment of the two kinds of telegraphists General Service and Station Service This matter was dealt with at some length by the Ryan Committee in paragraph 98 *et seq* of their report.

151 We understand that the qualifications and training of General Service and Station Service Telegraphists are precisely similar, and that there is no question as to the relative efficiency of the two for the discharge of their duties The General Service Telegraphist is however liable to transfer at any time to any part of India while the Station Service Telegraphist cannot be transferred from the station to which he is attached For this liability to transfer, the General Service Telegraphist receives not only pay on a higher scale than his Station Service compeer but in addition the benefits of free quarters or a house rent allowance of Rs 35 per mensem The average monthly cost of a General Service Telegraphist including allowances is stated to be about Rs 210 while that of a Station Service Telegraphist is Rs 129 or Rs 112 according as he is, or is not, *attached to certain expensive localities*

152 When the Ryan Committee submitted their report to Government the proportion of the General Service to Station Service Telegraphists was 80 20 This indicated that 80 per cent of the signalling staff in departmental Telegraph Offices was transferable *to meet fluctuations in traffic* or to enable staff being found for places where local recruitment of Station Service Telegraphists was not possible The Ryan Committee recommended that the proportion of General Service Telegraphists should be *reduced to 50 per cent and stated that the attainment of this proportion* will result in an annual saving on the then expenditure, of approximately Rs 7 lacs in pay and Rs 4 30 000 in house rent allowances or Rs 11,30 000 in all

153 *In* view of the large reduction in the number of Departmental Telegraph Offices which has occurred *since the Ryan Committee submitted* their report and the rapid development of educational facilities which is taking place we consider that even a proportion of 50 per cent recommended by the Ryan Committee, is excessive as compared with the require*ments of the Department in the matter of transferable staff* It was not possible for us to test our view by collecting statistics of the average number of transfers actually made every year, but we find that Station [illegible] employed in such stations as Ootacamund, [illegible] *er of places in Burma where it was* [illegible] raphists would present difficulties

154 The respective numbers of the members of the [illegible] also the strength of the local service to which re[illegible]

stopped, on 31st March 1926 and 1930, were as shown in the sub-joined table :—

—	Telegraph Masters.		Telegraphists.	
	31st March 1926.	31st March 1930.	31st March 1926.	31st March 1930.
General Service	322	302	2,356	2,183
Local Service	29	15	108	64
Station Service	2	4	540	533
Total ..	353	321	3,004	2,780

According to the table Telegraph Masters and Telegraphists of the General Service still number 80 per cent. of the total staff of Telegraph Masters and Telegraphists. Thus, it will be seen that the Ryan Committee's recommendation does not appear to have been given effect to. We understand that the annual casualties amongst this staff come to 189 and that the staff required to fill the vacancies is recruited on the results of a competitive examination and by promotion. in the proportion of 92 General Service Telegraphists and 97 Station Service Telegraphists. Even if it be assumed that all the casualties will take place amongst the General Service and Local Service staff, a period of about 10 years must elapse, on the present basis of recruitment, before the approved proportion of 50 per cent. can be attained.

155. We are of opinion that the General Service scheme is now not necessary for the work of the Department. We understand that it sometimes happens that a General Service Telegraphist or Telegraph Master is able to stay in the same place, often the place of his choice, for many years without transfer. Thus while enjoying the better pay and the house rent concession, he is virtually a Station Service Telegraphist or Telegraph Master though he has always to face the chance of a transfer.

156. Our terms of reference preclude us from dealing with questions of policy and retrenchment, but no commercial undertaking would face with equanimity the prospect of unnecessary expenditure amounting to several lacs of rupees per year. Seeing that the employment of a more highly paid staff than is required is not necessary for departmental reasons, any figures purporting to show the cost of the Department must be vitiated to this extent. In the circumstances we recommend that at least further recruitment to General Service should be stopped forthwith. Our terms of reference do not make it necessary for us to study the conditions of employment of the General Service men. But we would suggest the adoption of a scheme whereby all Telegraph Masters and Telegraphists should in future be employed on a uniform scale of pay, with liability to transfer on payment of extra remuneration for the period of transfer. Such a scheme would then enable the Department to make a charge against other departments, such as the Military Department, if the transfer has to be made for the requirements, or on the initiative, of such other department

CHAPTER XVII

Adjustments for services rendered

A—Rents charged to Railways and Canals for use of wires and apparatus supplied to them

157 Although in the early days of Telegraphy Indian Railways were allowed to construct their own telegraph lines it was decided by the Government of India in 1871, that full control over such telegraph lines should be vested in the Telegraph Department, and as a result of this decision all such lines constructed by railways were acquired by and added to the assets of, that department Thereafter, the Telegraph Department recovered from the railways, the cost of maintenance of these lines Protracted and highly controversial discussions followed regarding the assessment of the maintenance charges but for our purposes it is sufficient to state that since the 1st April 1909 a flat annual rental of Rs 24 per mile of wire has been charged to railways for all telegraph wires leased to them by the Posts and Telegraphs Department Since 1909 the cost of maintaining lines has been affected to a considerable extent by price fluctuations as well as by the increasing use of copper wire instead of iron wire in the construction of such lines

158 For some years past the Posts and Telegraphs Department has been endeavouring to work out revised rentals to cover the cost of maintaining telegraph lines rented to railways This examination has since been carried out, and the annual rates for wires rented to railways would be, it is reported as follows —

	Iron wire	Copper wire
	Rs	Rs
Interest	8 96	21 90
Depreciation	4 83	7 63
Maintenance	7 66	7 66
	21 45	37 19
or roundly	21 8 0	37 0 0

These rentals if accepted by the railway authorities would bring in additional revenue of approximately Rs 4 lacs per annum, to the Department on the basis of the present wire mileage in use by the railways

159 The Posts and Telegraphs Department also constructs and maintains telegraph lines along canals, and prior to the 1st April 1930 recovered the maintenance charges at a flat rental of Rs 24 per annum per mile of wire This rental was revised with effect from the 1st of April 1930, and the following rates were substituted —

Iron wire	Rs 34 per annum
Copper wire ..	Rs 50 per

In arriving at these rates, however, a more or less arbitrary assumption was made regarding the division of establishment charges in connection with the maintenance of telegraph lines. The investigations now completed would seem to indicate that the correct average rental for lines off railways should be Rs. 40 per annum for iron wire and Rs. 56 per annum for copper wire. The question of further enhancing the canal rates in accordance with these conclusions is therefore under consideration.

160. The question of the revision of the rent which railways and canals have to pay to the Posts and Telegraphs Department for the use of telegraph wires and apparatus supplied to them has received the attention of the Public Accounts Committee on various occasions in the past few years. The importance of the question to the commercial accounts of the Department will be realised from the following statement comparing the revenue from this source, and the total receipts of the Telegraph and Radio Branches of the Department, during the last few years :—

	Rent of wires and instruments leased to railways and canals.	Total revenue.
	Rs.	Rs.
1925-26	42,19,377	2,87,83,979
1926-27	44,32,790	2,84,39,847
1927-28	49,20,034	2,89,40,639
1928-29	50,96,832	2,96,90,093
1929-30	54,09,963	2,80,34,013
1930-31 (R. E.) ..	58,00,000	2,71,97,000
1931-32 (B. E.) ..	58,00,000	2,81,17,000

161. Apart from such general considerations as the rise in the cost of establishment, material, transport, etc., which has occurred in the interval since 1908, it is obvious that a rent which is economic for iron wire cannot be sufficient to cover the supply of copper wire which is considerably more expensive. We understand that the demand of Indian Railways for copper wire circuits is increasing rapidly, and that of late a demand has arisen for copper wire of gauges heavier than that of the standard copper wire hitherto supplied by the Department. It would appear, therefore, in the absence of an adequate rent for copper wire that the Department has been incurring a certain amount of actual loss on this transaction, and that this loss is increasing rapidly. This case is one in which, in our opinion, early settlement is very desirable.

B.—Revenue from telegrams booked at licensed telegraph offices.

162. Under the orders contained in Resolution of the Government of India, Public Works Department, No. 203-35-T., dated the 2nd May 1882, reproduced as Appendix 6 to this report, revenue from inland telegrams addressed to any place in India, handed in at Railway Telegraph Offices is retained in full by the Railway administrations. Similarly, the Posts and Telegraphs Department on its side retains receipts from telegrams handed in at its Telegraph Offices for delivery from Railway Telegraph Offices. It has been brought to our notice, that the credit received by the Posts and Telegraphs Department under this arrangement is not a fair equivalent of the work performed or service rendered.

163 We understand that this case has been under examination for very long time A note detailing the proposals was submitted to the ailway Board some years ago Certain criticisms and counter claims ere made by the Board We are informed that the figures in the original ote are being revised and that further negotiations are contemplated n the circumstances we have not thought fit to examine this question in etail, from the point of view of both the Departments but we are trongly of opinion that there should be no further delay in the negotia ions If the Departments cannot come to an understanding within a reasonable distance of time we would suggest the appointment by Govern ment of an arbitrator to effect an early settlement

C —Miscellaneous Services

164 Besides the important cases discussed in detail in the preceding sections of this chapter there are several instances of such services rendered by the Posts and Telegraphs Department to various parties for which no charge is recovered from them at present We understand however that in some of these cases the question of remunerating the Posts and Tele graphs Department is under consideration Some of these instances are —

(a) Heads of Governments or Administrations and some high Gov ernment officers mentioned in the list given in rule 2 2) Appendix A of the Posts and Telegraphs Manual Volume VII have been granted the privilege of special mail bags while on tour This enables early transmission and delivery of paid correspondence both registered and unregistered addressed to them in camp ' without any post town

(b) Paid inward foreign correspondence both registered and un registered not addressed to a post town for Heads of Govern ments or Administrations and the high officers mention d in the list given in Rule 12 Appendix A of the Posts and Tele graphs Manual Volume VII is forwarded in special bags either to their headquarters or in accordance with their tour programmes

(c) Abbreviated telegraphic addresses of Government officials are registered free of charge whereas the following charges are levied in the case of members of the public or firms —

For one address—Rs 15 a year

For the first ten addresses of a single firm—Rs 15 each a year

For the second ten such addresses of a single firm—Rs 7 8 0 each a year

For each subsequent one—Rs 4 8 0 each a year

We understand that the British Post Office does not render such service free of charge to Government officials

(d) *Issue of Salt Licenses* —The Posts and Telegraphs Departmen issues salt licenses in certain localities on behalf of the Sal Revenue Department This Department does not charge an remuneration for this work but the officials who actuall issue the licenses receive a small commission of three ann per license issued

165. As the proposal to levy suitable charges for these services is said to be under contemplation, we do not feel called upon to make any specific recommendation in regard to any of them. We should like, however, to make the general observation that while the amounts due to the Department may be small in respect of these services individually the aggregate cost incurred by the Department may be quite appreciable, and we recommend therefore that this consideration should be kept in view in dealing with such matters.

166. We should like to close our remarks in this connection with one general observation. We are inclined to believe that in the case of certain classes of employees such as counter clerks, the amount of waiting time is much larger than is generally realised. For instance we understand that an investigation into this matter made by the British Post Office revealed in some cases a proportion as high as 70 per cent. of total time. We suggest therefore that this factor should be taken into account in making calculations of the cost of services rendered to or on behalf of other departments.

D.—Inter Branch Adjustments.

167. As the Profit and Loss account of the Department is required to show the results of working each constituent branch, inter-branch adjustments are necessary in respect of services rendered by one branch to another. The final result of the working of each branch must therefore depend on the suitability and accuracy of the methods by which these mutual services are evaluated and adjusted between the branches. We understand that the heads of the various branches affected by this system are consulted when the methods of calculation for these adjustments are settled, and that the methods actually adopted have received their concurrence.

We understand that the various overhead charges that go to make up the aggregate cost of a service are taken into account in fixing the amounts chargeable to different branches of the Department or different Departments of Government ; but we have noticed that the authorised code containing the instructions for these apportionments does not contain any general statement or instruction to this effect.

E.—Guarantee calculations.

168. We understand that the Department obtains from interested parties a guarantee against loss when undertaking to provide facilities under unremunerative conditions, and that the amount of the guarantee is calculated in accordance with certain standard formulæ. In this connection, we have considered the desirability of maintaining separate commercial accounts for each unit of departmental activity such as a post office, local telephone system or a single trunk telephone line. The usefulness of such accounts is obvious, but the cost would be very heavy, if not altogether prohibitive. We think, therefore, that the present arrangement under which such calculations are made as and when required, according to standard instructions contained either in the departmental codes or issued separately for the occasion, is satisfactory. We understand also, that the Accountant-General has been asked to maintain for the first three years of their existence profit and loss accounts, on a simple plan, of small telephone exchanges opened under the orders of Heads of Circles. We desire

to emphasise however that any standard method of ascertaining the results or the working of an office, that may have been laid down in the past or may be evolved in the future, should be reviewed at periodical intervals so as to ensure that the Department does not undertake to provide a new service or lease out a part of its monopoly rights without full knowledge of its financial implications

F—General suggestions

169 The two cases dealt with in paragraphs 157 to 163 relating respectively to the rent for wires leased to railways and to the apportionment of telegraph revenue of licensed telegraph offices illustrate the difficulties and delays that are likely to occur in the settlement of claims of one Department against another if they are left to be settled by discussion or correspondence This is not surprising as such claims are based on calculations which are, to say the least of a very intricate nature and sometimes involve at some stage or other, certain assumptions which can be made only on the judgment of the officers most conversant with the technicalities of the situation On the other hand, the Department that is called upon to meet an increased claim naturally wants to satisfy itself that the calculations are fair Discussions may thus go on indefinitely while the accounts suffer in accuracy We suggest that suitable machinery should be devised for expediting the final settlement of such cases For instance it may be arranged that both the Departments should state their sides of the case and that the two statements should be submitted to an impartial authority for adjudication We hasten to add however that the evidence placed before us in respect of the two cases referred to does not in any way lead us to think that the delay in the settlement has been caused by the Railway Department of the Government of India Our impression is that the delay has been due to the complexity of the problem, and to the long time that has been taken to collect the data necessary for the calculation

170 The services for which the Department receives credit from other parties, or for which inter branch adjustments are made, are so numerous and their nature is so varied, that it was not possible for us, in the limited time at our disposal, to assess the suitability of the particular methods employed for determining the actual cost of each individual service or to test the accuracy of the rates charged.

We have however, examined generally the principles underlying the methods adopted, and we find that they are both fair and correct Some of the methods were revised recently, others are, we understand, under revision but there are yet many which were in existence several years ago i e, before the accounts of the Department were placed on a commercial basis We are glad to note that the Department is alive to its responsibilities in the matter, but we would like to emphasise the need for an early revision of all such methods and formulae as were determined before 1925 when the full implications of a commercialised system of accounting were perhaps not realised by the Department

171 We suggest further that definite instructions should be issued by Government and incorporated in one of the recognised codes, that a proper proportion of charges of the following nature, should always be included in every calculation of cost or rate per unit, and in determining the lump sum amounts that may be due to the Department [illegible] rendered by it

I. Supervision charges—

(a) Subordinate non-gazetted supervision.

(b) Gazetted supervision.

(c) Circle office charges.

(d) Charges of the Directorate.

(e) Accounts and audit charges.

NOTE.—The charges should be inclusive of the cost of leave whether incurred in the shape of pay of a leave reserve or otherwise, and a fair share of travelling allowance and contingencies.

II. Contribution for pension levied at the percentages fixed by the Government Actuary for determining the contribution made by the Department to general revenues. The amount to be included in the cost calculation should be based on the pay of the staff directly engaged on the work, as well as on the allocated share of the pay of supervising staff.

III. Recurring expenditure on buildings whether incurred in the shape of rent paid by the Department to owners of buildings or as interest, depreciation, maintenance charges and rates and taxes. The amount chargeable in respect of buildings should be so regulated as to cover the cost of accommodating the supervising establishments.

IV. Interest, depreciation and maintenance in respect of such assets, other than buildings, as may be required in rendering the service.

The rate of interest should be fixed high enough to cover the amount charged by Government on the capital outlay of the Department.

V Miscellaneous charges relating to Store-keeping inclusive of a suitable amount to cover normal incidental losses.

172. Finally we suggest that the calculations should be reviewed periodically and revised to suit changing conditions of accounting and administration, and that the Accountant General, Posts and Telegraphs should be consulted in and his concurrence obtained to, all revisions of the methods of determining the rates and amounts charged for various services, and where necessary of the rates and amounts. It will be desirable to include instructions to this effect in one of the codes.

CHAPTER XVIII

Miscellaneous

A.—Royalties from Telephone Companies

173 We have considered the propriety of the inclusion, in the commercial accounts of the Telephone Branch, of the royalty recovered from the licensed Telephone Companies in India These are the Bengal Telephone Corporation, Ltd, operating in Calcutta, the Bombay Telephone Company, Ltd, in Bombay, Ahmedabad and Karachi, the Madras Telephone Company, Ltd, in Madras, and the Rangoon Telephone Company, Ltd in Rangoon and Moulmein Under clause 3 (3) of the first schedule of the license granted to these companies, the royalty payable to the Department is fixed at five per cent on the gross amount of every sum of money paid or payable to the licensees In respect, however, of telephone wires which are situated beyond the limits specified in the license, a royalty of six per cent, is payable The total amounts of these royalties received during the past few years were as follows —

Year	Rs
1923 24	2,65 712
1924 25	2,45,284
1925 26	2 73 797
1926 27	3,09,434
1927-28	3,36,791
1928 29	3 65,041
1929 30	3,83,165

174 The only argument against the present practice of treating these royalties as departmental revenue that we can think of is the consideration that this revenue is not derived from the employment of any capital assets of the Department. The source of a receipt is not, however, the only criterion for deciding its allocation, and due weight must be given to the principles which regulate the accounts of commercial departments equally with those of non commercial departments, to the declared policy governing the operations of the Department, and lastly, to the inherent rights of the Department to extend its operations and activities From the standpoint of general principles of accounting, we are of the opinion that there is no other Department of Government with a better title to this revenue, and our view is borne out by the practice in the British Post Office the accounts of which it is understood, are credited with similar revenue

As regards the second consideration, we invite a reference to the declared policy of Government in respect of the working of the Department reproduced earlier in this Report Taking into account the various stages of commercial and educational development reached in the country, it is obvious that, in order to secure the accrual neither of profit nor of loss on the whole of its activities, the Department must counterbalance gains of one kind or in one area against losses of another nature or incurred in other places As licenses to operate telephone systems would be sought for by private companies only for those areas where profits can be secured, for example, in Presidency towns and large centres of

industry, it follows that the grant of such licenses prevents the Department from obtaining the gains which it requires to counterbalance inevitable losses of other kinds or in less profitable areas. From this standpoint, the royalty represents merely the *quid pro quo* for the restraint placed on the operations of the Department.

Lastly, the grant of licenses is due either to a desire to avoid raising large amounts of capital or to encourage private enterprise. Neither of these considerations can, in our opinion, detract from the inherent right of the Department to treat these royalties as its departmental revenue.

B.—Adjustment for 'lags' and 'throwforwards'.

175. The accounts of a commercial concern are based on "earnings" and "working expenses", while those of Government are based on "actual receipts" and "actual payments". The reasons for the former practice are fairly obvious. A trading or manufacturing concern is set up generally with the sole aim of making a profit and distributing it to its partners or shareholders. The personnel of the partners or shareholders is liable to change by demise of partners or transfer of shares, and it is therefore of prime importance to determine the actual profit and loss for each accounting period with exactitude, so that each partner or shareholder may receive the full amount of his profit or accept responsibility for his share of the loss during the period of his connection with the enterprise. Further, a business concern is subject to taxation and is also subject to be wound up at any time.

176. The adoption of the commercial practice in the Posts and Telegraphs accounts was considered at the time of commercialising the accounts. It was realised that the conditions in a great Department of State created for providing a public utility service are somewhat different. The making of profit and the distribution thereof is not its primary function. In fact, under the terms of the policy governing its operations the Department is precluded from making a profit or from incurring a loss A cessation of its operations is unlikely and so is the possibility of its being subjected to taxation. The Profit and Loss account of such a Department partakes, therefore, of the nature of a cost account designed to show whether the Department is paying its way, or is a drag on the general exchequer and consequently a burden on the general tax-payer. It was accordingly held by Government that a rigorous adoption of the commercial method of treating receipts and disbursements in accounts is not necessary, that such action is likely to involve expenditure incommensurate with the results obtained, and that an adjustment to allow for the divergence between "earnings" and "working expenses" on the one side, and the actual "incomings" and "outgoings" on the other, should be made only in respect of such items of receipts or expenditure as are subject to violent fluctuations from year to year.

177. Based on these principles, the following changes were adopted at the time of the commercialisation :—

(i) The stores and manufacture suspense accounts were transferred to a capital head outside the revenue accounts of the Department and of the Government of India.

(ii) A depreciation fund was instituted to provide for renewals and replacements as they fall due.

(iii) The annual charge for pensions was based not on the actual payments of pensions to retired employees in any particular year but on the present worth calculated on an actuarial basis of the future pensions in respect of the service rendered in the year

We have examined the figures of various classes of receipts and expenditure booked in the commercial accounts commencing from 1st April 1925 and have come to the conclusion that no further changes are necessary, at present in order to allow for the divergence between cash and accrued figures We should add however that a decision on a matter like this cannot hold true for all time and we suggest that the position should be examined from time to time to determine the necessity or otherwise of making similar adjustments in respect of other classes of receipts or expenditure

C.—Cost of manufacture of and freight on stamps

178 One item of expenditure which seems to require particular attention in this respect is the cost of manufacture of and freight on stamps and postal stationery The violent fluctuations that occurred in the years 1923 24 to 1925 26 were incidental we understand to the *winding up of* the old practice of obtaining supplies from England and the commencement of the manufacture of stamps and stationery in the Security Printing Press at Nasik Similar fluctuations in the next four years were due to the necessity for building up adequate balances of stamps in treasuries This process is probably reaching completion and in future years the fluctuations from year to year will not be material Nevertheless as stated earlier this matter should receive periodical attention

179 *We observe also that the ratio of the cost of manufacture of and* freight etc, on stamps to the gross sales is very high As a commercial department interested in getting its supplies as cheaply as possible it behoves the Department to keep a keen watch on any tendency either to an increase in this ratio or even to its stabilisation at the present high figure With the steady fall in prices and the expansion of business in the Security Press the ratio between the cost of manufacture and the gross sale proceeds should tend to fall and fall steadily To be useful this scrutiny must be exercised systematically from year to year and we suggest that suitable arrangement should be made for obtaining the necessary figures and for their review by competent authorities

D.—Cost Statistics

180 A commercial account supplemented by a system of accurate statistics is an index of the loss or profit on the working of an individual branch of the Department It is also of use in the checking of extravagance and the prevention of the leakage of revenue and finally it affords a clear indication of the directions in which the rates charged for services provided by the Department require amendment We have examined the statistics showing percentage increases of postal telegraph and telephone rates levied at present compared with those charged in 1914, and also the effect of these on the volume of traffic as distinguished from

se some of the statistics pub-

As a result, we have reach

nt collects a large amount of

statistical information relating to various descriptions of traffic, full use of these statistics is not made in the revision of rates, in the tapping of new sources of revenue and in ascertaining the remunerativeness or otherwise of a particular unit or branch of the Department. In order that the Department might reap the full benefits of a commercialised system of accounting and of its statistics, we consider that adequate action should be taken to revise the standard methods of costing for the more important services rendered by the Department to the public and of the statistics themselves.

181. A suitable system of cost statistics would be useful in dealing with improvements in the pay and allowances of the staff. It is an accepted principle that in a commercial department the rate of pay to be given to particular individuals or classes of employees should have a direct relation to the kind and quality of the work for which they are engaged, and to the remunerativeness of that work to the Department. In the absence of a proper " costing " system, it is not unlikely that greater weight may sometimes be given, when dealing with proposals for revisions of pay, to considerations of a general character, *e.g.*, rate of pay sanctioned for staff with similar qualifications employed in other Departments or recruited in particular localities, etc., than would be warranted if due consideration was given to the remunerativeness or otherwise of the nature of the work on which the staff would be employed.

CHAPTER XIX

Conclusions and Recommendations

182 The principal conclusions reached and recommendations made by us are now summarised

(i) The 'lives' of various classes of assets as fixed by the Chief Engineer for calculating the depreciated value of fixed assets on 1st April 1925 and for calculating future depreciation are inappropriate and generally underestimated The average lives and residual values should be fixed as shown in Appendix 1 (Paragraphs 38 and 40)

(ii) The estimates of unexpired lives made at the time of the valuation in respect of assets of which the date of construction (or last reconstruction) was not known were based on the expected lives fixed by the Chief Engineer As the latter are to be revised the former should also be changed *pari passu* and the accrued depreciation on 1st April 1925 recalculated The amount of accrued depreciation on 1st April 1925 should be reduced from Rs 9 09 85 728 to Rs 8 25 35 096 (Paragraph 56)

(iii) (a) The decisions to write down the value of fixed assets by the amount of accrued depreciation to their depreciated value on 1st April 1925 and to finance reconstructions partly by making advances bearing current rates of interest have imposed an unfair burden on the finances of the Department (Paragraph 70)

(b) The institution of a Sinking Fund to provide for depreciation accruing after 1st April 1925 in preference to a straight line depreciation fund was probably sanctioned under a misapprehension of the comparative net cost of the two methods (Paragraph 73)

(c) The use of one method for calculating and providing for arrears of depreciation on 1st April 1925 and another for depreciation accruing after that date has led to complications with a liability of mistakes occurring in the accounts (Paragraphs 65 and 75)

(d) We recommend (paragraphs 71 and 74) that

(1) The initial capital account of the Department should be fixed at the amount at charge on 31st March 1925 as shown in the Finance and Revenue Accounts for that year less Rs 1 29 83 517 which was written off as representing errors in accounting and value of assets lost or abandoned etc As shown in paragraph 26 the amount will be Rs 20 59 62 337

(2) The Department should pay interest on the full amount of the capital at charge at 3 3252 per cent per annum in respect of outlay incurred up to the year 1916 17 inclusive and at varying rates on outlay in subsequent years (Paragraph 71)

(3) The Depreciation Fund of the Department should be instituted with an initial opening balance of Rs 8 25 35 096 being the amount of the accrued depreciation on 1st April 1925 (Paragraph 71)

statistical information relating to various descriptions of traffic, full use of these statistics is not made in the revision of rates, in the tapping of new sources of revenue and in ascertaining the remunerativeness or otherwise of a particular unit or branch of the Department. In order that the Department might reap the full benefits of a commercialised system of accounting and of its statistics, we consider that adequate action should be taken to revise the standard methods of costing for the more important services rendered by the Department to the public and of the statistics themselves.

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(b) The institution of a Sinking Fund to provide for depreciation accruing after 1st April 1925 in preference to a straight line depreciation fund was probably sanctioned under a misapprehension of the comparative net cost of the two methods (Paragraph 73)

(c) The use of one method for calculating and providing for arrears of depreciation on 1st April 1925 and another for depreciation accruing after that date has led to complications with a liability of mistakes occurring in the accounts (Paragraphs 65 and 75)

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(3) The Depreciation Fund of the Departm[illegible] with an initial opening b[illegible] amount of the accrued [illegible] graph 71)

(4) The Depreciation Fund should be worked on the straight line method retrospectively from 1st April 1925 and interest on the depreciation fund balances should be credited as the revenue of the Department. (Paragraph 71.)

N.B.—The net effect of the changes recommended at items (*d*) (2) and (4) on the commercial results of working would be to increase the loss accumulated in the years ending 1929-30 by Rs. 15,29,084.

(*iv*) Interest on capital is correctly included in the Profit and Loss account, irrespective of the source from which the capital outlay was financed. (Paragraph 82.)

(*v*) During the five years 1925-26 to 1929-30, the rate of interest allowed on the assets of the Depreciation Fund has been considerably lower than charged on the capital outlay (incurred after 1916-17). In equity the two rates should always be equal; and we suggest that Government consider the question of giving retrospective effect to the equality in rates. If the equality in rates adopted in the Revised Estimates for 1930-31 had existed from 1st April 1925, the effect of the changes stated at items (*iii*) (*d*) (2) to (4) above would have been to increase the revenue of the Department, for the five years ending 1929-30 by Rs. 62,46,420. (Paragraph 86.)

(*vi*) The rules for allocation of expenditure between working expenses and renewals and replacements are very complicated, and tend to throw an unnecessary and unjustified burden on the annual working expenses. They should be simplified and revised to meet the requirements of a straight line depreciation fund. The entire cost, irrespective of its amount, of renewing a unit asset should be charged to renewals and replacements (*i.e.*, depreciation fund). The present practice of transferring a portion of the annual maintenance charges to renewals and replacements will probably still be necessary and should be continued therefore until experience has been gathered of the working of the new rules. (Chapter VI and paragraph 75.)

(*vii*) The inclusion, in the Stores Suspense section of the commercial accounts instituted from 1st April 1925, of the book value of all stores, a considerable portion of which was immediately afterwards found to be either unserviceable or borne at too high a rate has reacted to the disadvantage of the commercial results of working in two ways. Departmental working expenses had to meet, in the five years ending with 1929-30, a total loss of Rs. 27,55,643 incurred in the disposal of unserviceable materials and writing down inflated values. It had also to meet the interest on this amount from 1st April 1925 to the various dates of disposal. As these stores must have accumulated over a long period before the commercialisation of accounts the commercial accounts have been vitiated. (Paragraph 30.)

(*viii*) The principle of the grant of a rebate or the levy of a surcharge, as the case may be, in respect of interest on the net profit or net loss on the working of the commercial branches of the Department is endorsed. It is necessary, however, that losses that may be incurred by the Department on its non-commercial activities or on special services which the Department is called upon to render below cost should be left out of account in determining the amount liable to surcharge. (Paragraphs 87 to 89.)

(*ix*) (*a*) Pension is of the nature of deferred pay and an amount to cover this liability calculated on a proper actuarial basis is therefore correctly included in the Profit and Loss account (Paragraph 95)

(*b*) The formula adopted for calculating the annual charge, in the revised estimate for 1930 31 and the budget estimate 1931 32, is 8 2 per cent of the total pay and leave salary of the pensionable establishment excluding pay and allowances not counting for pension This should be reduced to 7 465 per cent with retrospective effect from 1925-26 The sum of Rs 17,24 969 which has been contributed by the Department in excess of that required by the formula, in the five years ending 1929 30, should be restored to the Department (Paragraph 109)

(*c*) We recommend that a further investigation should be carried out *on the simple plan outlined by us, within the next few months, and the re* calculated rate should be adopted for the future (Paragraph 102)

(*d*) We consider that a hypothetical pension fund account should be *maintained as from* 1st April 1925, *in order to check from time to time*, the continued accuracy and reliability of the percentages employed to determine the annual contribution We have made suggestions as to how this account should be opened and maintained (Paragraph 103)

(*x*) (*a*) The formula used at present to determine the amount payable to Local Governments and Administrations as their share of the revenue from unified stamps is unsuitable and yields results which are unfair to the Posts and Telegraphs Department In our opinion it is impossible to deduce any mathematical or statistical method which will be fair alike to all parties We recommend that to secure a proper basis for calculating these assignments in the future separate revenue stamps should be introduced as a temporary measure for two or three years The ratio found to subsist between the actual sales of the separate revenue stamps and those of postage stamps of corresponding values should be adopted as the basis (Paragraph 124)

(*b*) Until the first results of the test become available the minor defects indicated in the report should be rectified (Paragraph 118)

(*xi*) The rates charged on inland press telegrams are neither remunerative in their results nor commercial in their basis and the Department incurs a large annual loss on this traffic We recommend that the Department should be re imbursed this loss as measured by the estimated savings in working expense, etc, which would result if this traffic was *abolished In case it is found impossible to arrange for an actual credit to* the Department, the amount of loss should not be taken into account when determining the amount of surcharge on the progressive loss on working For the year 1929 30, the loss has been estimated at Rs 21,53,000 (Paragraph 132)

(*xii*) The Posts and Telegraphs Department should receive credit for the amount of the difference between the normal (public) and concessional terminal charges, on foreign telegrams on State business originating or terminating in India The annual loss incurred by the Department is about Rs 71 000 (Paragraph 138)

(*xiii*) As the Round Table Conference has recommended that Posts and Telegraphs should form a federal subject, the question of concessions to Indian States is likely to be discussed in full in the immediate future.

We do not, therefore, recommend immediately either the stoppage of the concessions already granted, or the allocation of the cost to any other Department of Government. *We suggest, however, that suitable steps should be taken to prevent the use of the service stamps granted free, for paying charges on telegrams, and that further concessions should not be granted at the expense of the Posts and Telegraphs Department until the constitutional issues have been settled* (Paragraphs 142 and 143).

(*xiv*) The accounts of the Posts and Telegraphs Department should be credited with the amount of the extra expenditure incurred in maintaining Departmental Telegraph Offices solely for the needs or convenience of some other Department of Government (Paragraph 149).

(*xv*) We *are of opinion that Telegraph Masters and Telegraphists recruited on the General Service scheme are not necessary for the work of the Department. We recommend that at least further recruitment to General Service should be stopped forthwith. We suggest the adoption of a scheme whereby all Telegraph Masters and Telegraphists should be employed in the future on a uniform scale of pay with liability to transfer on payment of extra remuneration for the period of transfer* (Paragraph 156).

(*xvi*) The claim of the Posts and Telegraphs Department for revised rentals for wires and apparatus supplied for use by Railways and Canals, and for a share of the revenue from telegrams booked at Railway Telegraph Offices, should be settled expeditiously by mutual negotiation. If the cases cannot be settled within a reasonable period, they should be referred to an Arbitrator (Paragraphs 161 and 163).

(*xvii*) Suitable machinery should be devised for expediting the final settlement of claims of one Department against another (Paragraph 169).

(*xviii*) A few suggestions have been made for reviewing the methods in use for determining the cost of various services and for the maintenance of a proper system of cost statistics. (Chapter XVII, Sections D, E and F and Chapter XVIII.)

183. In view of the facts that the accounts of the Posts and Telegraphs Department were placed on a commercial basis with effect from 1st April 1925, and that the Department receives or pays rebate or surcharge on the accumulated profit or loss of its working from the same date, we are of the opinion that full retrospective effect should be given to all our recommendations summarised in the previous portion of this chapter. Unless this is done it is impossible to obtain a true picture of the commercial results of the working of the Department as a whole. As a further argument in support of our view that full retrospective effect should be given to our recommendations, we would draw attention to the rule contained in Article 215 (*a*) of the Account Code issued under the authority of the Government of India. While generally prohibiting the correction of errors in the annual accounts after the latter have been closed, it makes an exception in respect of errors affecting the revenue and expenditure of different Governments, a capital head outside the revenue account, or the transactions of a commercial Department. For such errors, the rule directs that a correction should be made as soon as the mistake is discovered. Retrospective effect is equally justified on grounds of equity. Some of the changes in the accounting system decided upon in connection with the commercialisation were to a certain extent introduced only

gradually For instance, the loss on the working of the non commercial portion of the Wireless Branch of the Department was excluded in the calculation for surcharge for the first time in the accounts for 1928 29 Again, as we have shown, there are still some instances of services rendered, or of unremunerative expenditure incurred by the Posts and Telegraphs Department to and for the benefit of other Departments of Government for which the Department does not receive adequate credit In the circumstances it would be unfair to penalise the Department by levying a surcharge on the results of accounts which have not been correctly commercialised

184 The amounts of the Profit or Loss on the working of the Posts and Telegraphs Department in the five years ending 1929 30 as they appeared in the Finance and Revenue Accounts of the Government of India are as follows —

Profit (+) or Loss (—) since commercialisation as in the Finance and Revenue Accounts

Year	During the year	Cumulative result
	Rs	Rs
1925 26	37,03,280	37,03,280
1926 27	10 24,962	47,28,242
1927 28	—26,15,138	21,13,104
1928 29	—53 83,557	—32,70,453
1929 30	—62,44,531	—95,14,984

From the total cumulative figure of Rs 95 14 984 shown in the table should be deducted a sum of Rs. 6 85 697 being the loss on non-commercial activities of the Wireless Branch during 1929 30 The net loss on the working of the Department accumulated during the five years comes therefore to Rs 88 29,287

185 Our investigations in the matter as set out in this report lead us to the conclusion that these figures are misleading We have accordingly prepared a statement of the Profit or Loss for the whole Department for each of the five years ending 1929-30 and this is attached as Appendix 7 The recalculated profits or losses are shown below —

Profit (+) or Loss (—) as recalculated

Year	During the year	Cumulative amount
	Rs	Rs
1925-26	38,73,720	38,73,720
1926-27	5,36,531	44,10,251
1927 28	—22,96,514	21,12,727
1928-29	—[illegible],16,722	—29,02,[illegible]
1929 30	—[illegible],47,9[illegible]6	—[illegible]

186 The method followed in reaching the results tabulated above may be explained. The immediate changes that have been made in the figures appearing in the published accounts are as follows —

(i) The charge for [illegible] to agree with that calculated [illegible] per cent of the total pay and leave salary of the [illegible]

(*ii*) The amounts debited to working expenses on account of the losses incurred in the disposal of unserviceable stores held in stock, and on account of the writing down of the value of serviceable stores, have been omitted, but the consequent saving in interest on stores balances has not been included.

(*iii*) Interest has been charged on the original value of fixed assets.

(*iv*) Credit has been taken for the interest on the balances of the depreciated fund to be operated on the straight line method. The initial opening balance of the Fund has been taken to be equal to the accrued depreciation on 1st April 1925. The rates of interest on depreciation fund balances are, however, the same as were actually allowed by Government in the respective years.

(*v*) The entire cost of reconstructions has been charged to the depreciation fund account and consequently the capital account remains unaffected except for outlay on new assets.

187. Over and above the changes in the Profit and Loss account shown in paragraph 186, further credits will also have to be taken for various losses incurred for non-departmental reasons, in order to present a true picture of the results of commercial working. These modifications cannot be included in the main accounts the final results of which are given in paragraph 185, unless and until decisions are taken to provide actual credits. They are shown in a statement appended to this Report as Appendix 8, which has been prepared on the lines recommended by us in paragraph 89. The effect of these modifications is to show the true amount on which the Department should get a rebate or pay a surcharge in respect of interest.

188. Taking these changes into account, the profit or loss in each of the five years ending 1929-30 will be as shown below :—

Year.	Profit (+) or Loss (—)
	Rs.
1925-26	60,98,000
1926-27	28,82,000
1927-28	1,73,000
1928-29	—23,97,000
1929-30	—19,25,000

In our opinion these figures give the true picture of the working of the Department in the past.

189. The correct amount of the cumulative commercial results of working at the end of 1929-30 is thus a profit of Rs. 48,31,000 as against a loss of Rs. 95,14,984 shown in the Finance and Revenue Accounts.

190 Adopting the figures of the latest budget estimates we have also reconstructed the Profit and Loss account for the years 1930 31 and 1931 32 and the results are as follows —

Year	Profit or Loss as it appears in the Estimates	Profit or Loss as recalculated by us
	Rs	Rs
1930 31	—1,36,36,000	—1,16 12,000
1931 32	—1,41,19,000	—1,28,61,000

191 Taking into account modifications similar to those referred to in paragraph 187, the correct loss will be as follows —

	Rs
1930 31	—79,89 000
1931 32	—91 91,000

192 The figures given in the body of the Report and in the Appendices represent, almost in all cases only the final results of detailed calculations The latter have not been reproduced but files containing these detailed calculations will be submitted separately for record and reference

We regret that we were not able due to the shortness of the time at our disposal, to get our calculations checked by the Accountant General, Posts and Telegraphs

193 It now remains for us to acknowledge the great advantage that we have derived from the information and advice placed at our disposal by the large number of witnesses, both non official and official We desire to thank these gentlemen for all the trouble they undertook for our benefit In particular our acknowledgments are due to the various Departments of the Government of India, and to the officers at the headquarters of the Posts and Telegraphs Department who have given us all the assistance that we required

194 It also gives us great pleasure before closing this Report, to place on record our appreciation of the valuable assistance which we have received from our Secretary, Mr S P Varma Officiating Financial Adviser, Posts and Telegraphs who had, in addition to discharge the duties of the office which he holds But for Mr Varma's indefatigable energy, his detailed knowledge of the financial and accounting arrangements of the Posts and Telegraphs Department and his remarkable capacity to marshal and present facts and figures we should have found it impossible within the limited time at our disposal, to complete our task which was more onerous than was originally anticipated

COWASJEE JEHANGIR (Junior)

Dated the 23rd April 1931.

G KAULA

Dated the 21st May 1931 F J PEARSON

S P VARMA,

Secretary

(Vide CHAPTER V)

Lives and residual values of assets as fixed now and as recommended by Committee

Class of Assets	Life				Residual values		Remarks
	As at present			As fixed by the Committee	As at present	As fixed by the Committee	
	Normal	Allowance for accidents	Effective	Effective			
	(years)	(years)	(years)	(years)	(Per cent)	(Per cent)	
All Branches							
1 Land	Permanent			Permanent			
2 Buildings	75	*Nil*	75	100	*Nil*	*Nil*	
3 Electric house installations and electric fans etc.	10	—4	12	16	5	3	
Post Office							
4 Railway Mail Vans	30	*Nil*	30	30	*Nil*	*Nil*	
Telegraphs, Telephones and Telephones							
Underground Cable	3[illegible]	—8	24	36	5	5	
6 Submarine Cable	15	—3	12	20	*Nil*	*Nil*	
7 Aerial Cable	15	—5	10	10	5	3	
8 Posts (including brackets)	34	—4	30	45	10	10	
9 Copper or Bronze wire	35	—8	27	40	20	30	
10 Iron wire—Telegraph circuits	27	—3	24	36	4	4	
11 Iron wire—Telephone circuits	12	—1½	10	15	4	4	
12 Stays, aerials and earths	34	—4	30	15	10	8	
13 Manual Exchanges, Private switchboard	16	—4	12	15	5	5	
14 Engines, motors, switchgears, etc. of all kinds	16	—4	12	16(a)	5	?(a)	(a) Other than wireless
				16(b)		?(b)	(b) Wireless
15 Automatic exchanges	[illegible]	—5	20	25	10	5	
16 Subscribers' apparatus	12	—4	8	10	5	5	
17 Telegraph instruments of all kinds and wireless apparatus	1[illegible]	—4	12	25(c)	5	5(c)	(c) Oter than wireless
				10(d)		*Nil* (d)	(d) Wireless
18 Lorry [illegible]	8	*Nil*	8	8	10	10	
19 Workshop plant and machinery	20	*Nil*	20	20	10	5	
20 [illegible] and furniture	10	*Nil*	10	10	10	10	

APPENDIX 5

(Vide Chapter X)

Service Cards

A—For Postmen group.

1 Age at entry into service qualifying for pension inferior or superior

2 Scale of pay drawn immediately previous to promotion to the postmen group

3 Length of service at the time of substantive promotion to the postmen group

N B—Age should be taken as at the nearest birthday, i e, 6 months and over should be taken as a year and periods less than 6 months should be ignored

B—For Head Postmen Group

1 Age at entry into service qualifying for pension, inferior or superior

2 Scale of pay drawn immediately previous to promotion to the postmen group

3 Length of service at the time of substantive promotion to the postmen group

4 Length of pensionable service at the time of substantive promotion to the Head Postmen Group

5 Scale of pay after substantive promotion as Head Postmen

N.B.—Age should be taken as at the nearest birthday, i e, 6 months and over should be taken as a year and periods less than 6 months should be ignored

C—For Inspectors Group

1 Age at entry into service qualifying for pension, inferior or superior

2 Length of pensionable service at the time of promotion to the Inspectors' Group

N.B—Age should be taken as at the nearest birthday, i e, 6 months and over should be taken as a year and periods less than 6 months should be ignored

D.—For men of higher non-gazetted rank promoted from the class of Inspectors.

1. Age at entry into service qualifying for pension, inferior or superior.

2. Length of pensionable service at the time of promotion to the Inspectors' Group.

3. Length of pensionable service at the time of substantive promotions to the higher rank.

4. Scale of pay after substantive promotion to the higher rank.

N.B.—Age should be taken as at the nearest birthday, *i.e.*, 6 months and over should be taken as a year and periods less than 6 months should be ignored.

E.—For Gazetted Officers.

1. Age at entry into pensionable (superior) service.

2. Length of pensionable superior service at the time of substantive promotion from non-gazetted to gazetted rank.

3. Scale of pay immediately previous to substantive promotion to gazetted rank.

4. Length of pensionable (superior) service at the time of substantive promotion from each gazetted rank to the next higher rank as shown below.

N.B.—(1) Age should be taken as at nearest birthday, *i.e.*, 6 months and over should be taken as a year and periods less than 6 months should be ignored.

(2) The various ranks should be entered in the cards by the Director General of Posts and Telegraphs, arranged from below upwards, separately for each recognised chain of prōmotion.

APPENDIX 6

(*Vide* Chapter XVII, Section B)

Copy of Resolution of the Government of India, Public Works Department, No 203 35 F, dated 2nd May 1882

In the Resolution of the 14th of November 1881, it was stated that "the Government of India is willing and anxious to forward any scheme for developing and facilitating communication by telegraph, so far as this can be done without risk to the interests of the general tax paying community, but in the interests of that community, it is essential that the telegraph service should be self supporting"

2 In accordance with this Resolution, the attention of the Government of India has been drawn—

I to the relation which the railway telegraphs should bear to the Imperial Telegraph System in so far as they may be permitted to be the carriers of public messages, and

II to the economy that must result in the combination of the maintenance of the Government and railway telegraphs whenever practicable

3 The State Railway Telegraph Rules of 1874 were designed —

Primarily—To make the railway telegraph lines subsidiary and auxiliary to the Government Trunk System, and as such, they were allowed to retain certain shares of the receipts, varying in proportion to the distances messages were carried

Secondarily—To provide for the construction and maintenance by the Government Telegraph Department, of all telegraph lines and apparatus which might be required by the State Railways

4 The experience of working these rules for over 7 years has shown that, however justly they were designed on the principle of the division of receipts varying in proportion to work such differential division has in practice, caused an amount of account keeping, not justified by the sums involved

5 The Director General of [illegible] the shares of receipts in favour of railwa[illegible] out of all proportion to the work done, an[illegible] future all telegrams should be regarded as appertaining to the Telegraph Department, on the principle in force in England, by which railway telegraphs act only as agents for the Government system, and receive merely a fixed commission for carrying each message

6 The Governor General in Council, however, whilst admitting the force of the Director General's arguments and the equity of his proposals, is nevertheless desirous in the interest of the senders of telegrams that railways should be encouraged to carry public telegraphic messages to as great an extent as is compatible with the proper use of their telegraphs for the primary purpose of railway traffic, and has therefore decided, after duly considering the present revenue of the Government Telegraph

Department, to waive the claims of the latter to a share of the receipts; in the anticipation that any loss thereof will be more than compensated for, by the effect of the additional facilities thus given to the public.

7. With this object, and also to simplify account-keeping, to ensure uniformity of procedure, and to develop telegraphic communication, it is resolved—

I. to extend to canal telegraphs also, the privilege of carrying telegraphic messages for the general public;

II. that in future, every railway or canal, or other duly licensed telegraph office, at which a message may be tendered for despatch, shall retain the value of the message it sends, excepting such amounts as have to be again disbursed under the rules, for instance, for reply paid, post registered messages, etc.;

III. that there shall be but one public telegraph message system throughout India, applicable to railway, canal or any other telegraphic system licensed to carry messages for the public; and

IV. to provide for economical maintenance, the principle enunciated in Resolution, Public Works Department, Nos. 125-28-T., of the 4th March 1871, that the maintenance of Government and railway telegraphs, should be combined and vested in the Telegraph Department whenever practicable, is reaffirmed, and is now extended to canal telegraphs.

8. The accompanying set of rules, *viz.*—

I. General Rules relating to the conduct of all Electric Telegraphs licensed under the Telegraph Act to transmit "Paid messages" for the public;

II. Rules relating to the provision and maintenance of Electric Telegraphs, for the use of railways and canals,

are therefore published, and are to come into force on 1st of January 1883.

APPENDIX 7

Profit or Loss on the working of the Posts and Telegraphs Department for the years 1925 26 to 1929 30 as shown in Finance and Revenue Accounts and as reconstructed.

(*Vide* CHAPTER XIX)

APPEN

Profit or Loss on the working of the Posts and Telegraphs Department

and as

(Vide CHAP

	1925-26.		1926-27.	
	As shown in F. &. R. accounts.	As re-constructed.	As shown in F. & R. Accounts.	As re-constructed.
Receipts.	Rs.	Rs.	Rs.	Rs.
A. Postage Message Revenue ..	8,03,22,896	8,03,22,896	8,23,98,486	8,23,98,486
B. Miscellaneous Revenue ..	2,18,14,646	2,18,14,646	2,29,05,498	2,29,05,498
Interest earned on Depreciation Fund balances.	..	37,84,233	..	32,72,584
Total Receipts ..	10,21,37,542	10,59,21,775	10,53,03,984	10,85,76,568
Expenditure.				
C. Direction	13,56,876	13,56,876	14,49,887	14,49,887
D. Accounts and Audit	30,37,957	30,37,957	32,39,843	32,39,843
E. Traffic Control	33,50,870	33,50,870	35,00,412	35,00,412
F. Engineering expenses	63,36,351	59,36,992	70,29,520	65,07,632
G. Pensionary Charges	49,89,048	45,78,908	50,02,895	47,44,749
H. Stamps, Post Cards, etc. ..	5,06,635	5,06,635	14,93,045	14,93,045
I. Stationery and Printing ..	16,52,271	16,52,271	22,03,361	22,03,361
J. Postal expenses	5,58,91,964	5,58,91,964	5,86,61,854	5,86,61,854
K. Telegraph Traffic	1,48,06,581	1,48,06,581	1,47,75,302	1,47,75,302
L. Radio expenses	6,99,265	6,99,265	7,82,307	7,82,307
M. Telephone expenses	15,74,445	15,74,445	16,12,558	16,12,558
N. Provision for depreciation ..	31,30,657	41,98,309	30,05,142	43,38,713
Total (Gross) working expenses..	9,73,32,920	9,75,91,073	10,27,56,126	10,33,09,663
O. *Deduct* Credits to Working expenses.	35,37,119	35,37,119	36,86,093	36,86,093
Net Working expenses	9,37,95,801	9,40,53,954	9,90,70,033	9,96,23,570
Interest on Capital Outlay ..	46,38,461	79,94,101	54,10,077	86,26,810
Interest on Accumulated Profit (—) or Loss (+) to end of previous year.	..	..	—2,01,088	—2,10,343
Total Interest	46,38,461	79,94,101	52,08,989	84,16,467
TOTAL EXPENDITURE ..	9,84,34,262	10,20,48,055	10,42,79,022	10,80,40,037
Net Profit (+) .. .. .. Loss (—)	37,03,280	38,73,720	10,24,962	5,36,531

DIX 7.

for the years 1925-26 *to* 1929-30 *as shown in Finance and Revenue Accounts reconstructed.*

TER XIX.)

1927-28.		1928-29.		1929-30.	
As shown in F. & R. Accounts.	As re-constructed.	As shown in F. & R. Accounts.	As re constructed.	As shown in F. & R. Accounts.	As re-constructed.
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
8,47,68,326	8,47,68,326	8,59,96,182	8,59,96,182	8,81,80,492	8,81,80,492
2,35,02,720	2,35,02,720	2,43,69,126	2,43,69,126	2,47,69,141	2,47,69,141
..	33,98,601	..	37,65,830	..	44,05,432
10,82,71,046	11,16,69,647	11,03,65,308	11,41,31,138	11,29,49,633	11,73,55,065
16,09,808	16,09,808	15,16,071	15,16,071	14,13,849	14,13,849
32,51,585	32,51,585	33,98,222	33,98,222	35,12,567	35,12,567
34,65,515	34,65,515	36,61,459	36,61,459	39,18,090	39,18,090
83,69,581	72,13,482	75,09,716	71,59,023	77,60,971	74,33,367
50,03,696	49,57,520	58,32,343	52,76,165	60,34,881	55,17,689
19,78,635	19,78,635	23,36,739	23,36,739	20,46,807	20,46,807
24,81,693	24,81,693	27,29,952	27,29,952	27,32,921	27,32,921
6,19,01,248	6,19,01,248	6,57,81,666	6,57,81,666	6,85,51,440	6,85,51,440
1,52,95,289	1,52,95,289	1,54,98,945	1,54,98,945	1,55,52,268	1,55,52,268
9,91,720	9,91,720	9,77,165	9,77,165	11,02,404	11,02,404
18,25,100	18,25,100	20,23,693	20,23,693	21,80,196	21,80,196
32,75,454	45,18,390	33,47,935	46,75,079	33,63,445	48,02,794
10,94,19,324	10,94,89,985	11,46,13,906	11,50,34,179	11,81,69,839	11,87,64,392
40,96,144	40,96,144	51,30,174	51,30,174	55,53,664	55,53,664
10,53,53,180	10,53,93,841	10,94,83,732	10,99,04,005	11,26,16,175	11,32,10,728
57,87,384	88,09,592	63,84,101	93,62,864	64,04,328	93,38,184
—2,54,380	—2,37,272	—1,18,968	—1,19,003	1,73,661	1,54,140
55,33,004	85,72,320	62,65,133	92,43,861	66,77,989	94,92,233
11,08,86,184	11,39,66,161	11,57,48,865	11,91,47,866	11,91,	
—26,15,138	—22,96,514	—53,83,557	—50,16,728		

APPENDIX 7—*contd.*

Profit or Loss on the working of the Posts and Telegraphs Department as shown in R. E. 1930-31 and B. E. 1931-32 and as reconstructed.

(*Vide* CHAPTER XIX.)

—	R. E. 1930-31.		B. E. 1931-32.	
	As shown in R. E. 1930-31.	As reconstructed.	As shown in B. E. 1931-32.	As reconstructed.
	Rs.	Rs.	Rs.	Rs.
Receipts.				
A. Postage and Message Revenue	8,23,48,000	8,23,48,000	8,36,30,000	8,36,30,000
B. Miscellaneous Revenue	2,50,35,000	2,50,35,000	2,59,75,000	2,59,75,000
Interest earned on Depreciation Fund Balances	..	57,85,000	..	60,63,000
Total Receipts ..	10,73,83,000	11,31,68,000	10,96,05,000	11,56,68,000
Expenditure.				
C. Direction	11,93,000	11,93,000	11,45,000	11,45,000
D. Accounts and Audit ..	36,37,000	36,37,000	35,95,000	35,95,000
E. Traffic Control ..	43,26,000	43,26,000	44,95,000	74,12,000
F. Engineering Expenses ..	76,89,000	74,34,000	75,87,000	58,01,000
G. Pensionary Charges ..	62,29,000	56,85,000	64,22,000	58,01,000
H. Stamps, Post Cards, etc.	18,59,000	18,59,000	19,40,000	19,40,000
I. Stationery and Printing	23,32,000	23,32,000	23,82,000	23,82,000
J. Postal Expenses ..	6,87,73,000	6,87,73,000	7,05,30,000	7,05,30,000
K. Telegraph Traffic ..	1,59,09,000	1,59,09,000	1,58,57,000	1,58,57,000
L. Radio Expenses ..	11,01,000	11,01,000	11,19,000	11,19,000
M. Telegraph Expenses ..	23,11,000	23,11,000	24,61,000	24,61,000
N. Provision for depreciation	31,33,000	48,31,000	24,50,000	50,00,000
Working Expenses in England	7,59,000	7,59,000	7,53,000	7,53,000
Total (Gross) Working Expenses.	11,92,51,000	12,01,50,000	12,07,36,000	12,24,90,000
O. *Deduct* Credits to Working Expenses ..	58,15,000	58,15,000	57,10,000	57,10,000
Net Working Expenses ..	11,34,36,000	11,43,35,000	11,50,26,000	11,67,80,000
Interest on Capital Outlay	70,42,000	99,76,000	73,82,000	1,06,13,000
Interest on accumulated Profit (—) or Loss (+) to end of previous year	5,41,000*	4,69,000†	13,16,000*	11,36,000†
Total Interest ..	75,83,000	1,04,45,000	86,98,000	1,17,49,000
Total Expenditure ..	12,01,19,000	12,47,80,000	12,37,24,000	12,85,29,000
Net Profit (+) .. .. / Loss (—)	—1,36,36,000	—1,16,12,000	—1,41,19,000	—1,28,61,000

*Includes abatement of Interest on Non-Commercial activities of wireless branch.

†Interest on Non-Commercial activities of wireless branch has not been deducted here but it has been separately exhibited in the Subsidiary Statement.

APPENDIX 8

Subsidiary Statement of amounts by which the loss has to be reduced or profit increased

(*Vide* CHAPTERS IX AND XIX)

Nature of Correction	1925 26	1926 27	1927 28	1928 29	1929 30	R E 1930 31	B E 1931 32
	Rs	Rs	Rs	Rs	Rs	Rs	Rs
I —Loss from concessional rates for Foreign State Telegrams	71 000	71 000	71 000	71 000	71 000	71 000	71 000
II —Loss on Inland Press Traffic	21 53 000	21 53,000	21 53 000	21 53 000	21 53 000	21 53 000	21 53 000
III —Loss on non commercial portion of the Wireless Branch					6 86 000	6 56 000	4 90 000
IV —Total	22 24 000	22 24 000	22 24 000	22 24 000	29 10 000	28 80 000	27 14 000
V —*Add* additional Rebate *in respect* of Interest on IV		1 21 000	2 46 000	3 96 000	5 13 000	7 43 000	9 56 000
VI —*Total*	22 24 000	23 45 000	24 70 000	26 20 000	34 23 000	36 23 000	36 70 000
VII.—Amount of Profit or Loss as per Appendix 7	38 74 000	5 37 000	22 97 000	—50 17 000	—53 48 000	—1 16 12 000	1 28 61 000
VIII —True commercial Profit or Loss on which rebate or surcharge should be based	60 98 000	28 82 000	1 73 000	—23 97 000	—19 25 000	—79 89 000	—91 91 000
IX —If Committee's *suggestion* (*vide* paragraph 86) *is accepted and interest on* Depreciation Fund is allowed at the rates charged on Capital Outlay, revenue will be further increased by	9 75 000	14 66 000	14 77 000	15 35 000	7 93 000		

Explanatory Notes —

I —The figures have been shown correct to the nearest thousand

II —The annual loss on concessional Foreign *State messages* has in the absence of statistical information for all the years been taken at an average of Rs 71 000 for all the years [*vide* paragraph 182 (xii)]

III —The loss on Press Traffic *in the years prior* to 1929 30 has been shown in the absence of special calculations at the amount estimated for 1929 30 [*vide* paragraph 182 (xi)]

IV —The *loss on non commercial* radios has not been worked *out for years previous to* 1929-30

V —Rebate or surcharge in respect of interest has not been calculated on item IX *above*

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